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MICHAEL J. ROBINSON

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Television and American politics: 1956-1976

MICHAEL J. ROBINSON

TIME passes quickly with television. Consider this, for example: If CBS were to repeat each of the *Captain Kangaroo* shows aired since 1955, broadcasting one each day starting next spring, the replays would continue until the year 2000. Or this: More than one third of all Americans now living have been born since David Brinkley first became co-anchorman on the NBC nightly news in 1956.

But despite the remarkable longevity of some programs, television has changed markedly during the last two decades. And so has American politics. Since 1956, public opinion in the United States has in many ways come full circle—from conservative to liberal and back to conservative (or at least "neo-conservative") once again. And in many respects, television has gone through the same changes. Indeed, one of the main arguments in this article is that television and politics have gone through this metamorphosis together, and that television has been a major factor in the political changes that have taken place since the 1950's.

But the crucial point is not merely that television began as a conservative influence, then became a liberal influence, and eventually emerged as a conservative influence once more. Equally important is that in the 1950's television was a *reflection* of our social and

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political opinions, but by the 1960's it was an important *cause* of them.

This fundamental shift—from effect to cause—makes my intention somewhat different from that of most essays about television. My purpose is both to explain much of the last 20 years of politics by explaining the changes in American television and to explain why television itself changed during those years. This will eventually lead to the following conclusions: 1) that until 1960, television was an institution with little or no major political impact; 2) that since 1960, television has pushed politics back and forth, between left and right, liberal and conservative; and 3) that *since 1968, television in its total effect has been simultaneously fostering social liberalism and political conservatism.*

The two modes of television

To understand all of this, one must keep in mind that there are, and have always been, two modes of television: entertainment and information. Sometimes the distinction between the two is not as great as the network news departments might pretend. Barbara Walters, with her million-dollar salary, offers an example of how the networks themselves confuse entertainment with journalism—although perhaps too much is made of her case. After all, Walter Cronkite also maintains his job and commands his salary because he pleases audiences, not because he informs them more thoroughly. Nonetheless, one must distinguish between entertainment television and television journalism in order to understand the sometimes dramatic, sometimes ironic impact of television on politics.

The distinction was perhaps not so important back in 1956, when shows like *December Bride, I Love Lucy,* and the *$64,000 Question* were the backbone of programming, and almost all television merely served to reinforce the social conventionalism and political conservatism of the time. Television journalism was working in an opposite direction, perhaps—but only ever so slightly, and only occasionally. There was Ed Murrow, but there was also John Cameron Swayze, the most widely known newscaster of the era, a man more likely to cozy up to the Timex Corporation than the Council on Foreign Relations. On balance, the difference between the two kinds of broadcasting was quite small in the 1950's.

But during the 1960's, the distinction became quite meaningful, as entertainment television and television journalism both became politically important and powerful. By then, the principal political

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message and images of the two broadcasting modes had begun to diverge: Entertainment television and its themes began moving us toward social and political liberalism; television journalism and its themes began doing just the opposite—moving us toward social and political conservatism.

If this theory is correct—and it certainly has its share of detractors—the irony is striking. That part of television most closely and accurately identified with Madison Avenue and the business community would be the fomenter of a more "open" and liberal set of social-political values—what might best be described in 1977 as "Sonny-and-Cherism." In contrast, that part of the industry regularly attacked for being an electronic sounding board of "Eastern establishment liberalism" would be a major cause of the political retrenchment that occurred during the last years of the 1960's, when the most rapidly growing form of conservatism resembled something akin to the combined philosophies of Paul Harvey and Archie Bunker.

Although this theory is not without missing pieces, enough of it fits together that I think it deserves consideration. The best way to consider this theory is to divide the last two decades into four distinct phases, nearly equal in length, and to look at the major developments in each period—developments crucial for television, for politics, or for both. I will begin by returning to the 1950's, the most quiescent, least politicized period of postwar America—Happy Days, so to speak.

Television as a commercial toy: 1956-1960

In retrospect, the 1950's look very much like the era of the politics of happiness, even if we didn't know it then. The Suez crisis, the Polish rebellion, the Hungarian revolution, Eisenhower's heart attack, and even the sinking of the Andrea Doria all occurred within an eight-month period during 1956. Yet by contemporary standards, we were politically inert. Social scientists were asserting both the "end of ideology" (hiatus, as it turned out) and a new middle-class American consensus.

Social scientists were also demonstrating, with newly acquired statistical techniques, that television had almost no impact whatsoever on voters in Presidential or Congressional elections: The University of Chicago, the University of Michigan, and Miami University all released major studies in the 1950's strenuously denying the alleged omnipotence of television. This first wave of research from

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prestigious universities and by renowned social scientists produced a school of thought that regarded television as having no more political influence than radio or newspapers, and probably less than personal communication. That school, founded in the 1950's on data from the first large-scale survey-research projects, still represents—and still misguides—mainstream academic opinion about the impact of television.

There was also a second school of thought in the 1950's that ignored the political question, and unrelentingly railed instead against the insipidness of television, complaining that it was "bubble gum for the eyes" (as Fred Allen put it). The complaint was not that television was ineffective, but that it was wholly frivolous, and that by being so socially and politically irrelevant, it provided indirect but substantial support for the status quo.

To be sure, entertainment television of the "Golden Age" (as the 1950's have inappropriately been labeled) was undeniably irrelevant. From the list of the top-rated programs in this period (see the table on page 33), it is easy to understand the total frustration of anyone who even dreamed of using television as a mechanism for stimulating political awareness—let alone political change—at this time. Entertainment television had nothing whatever to offer beyond the social clichés of the period—the inevitability of marriage, the frivolousness of womanhood, the desirability of youthfulness, and the necessity of material abundance.

I Love Lucy, which ranked first or second throughout the early 1950's, was the outstanding example of such entertainment, a program with virtually no political message to impart. But everything else on the air was much the same. Remember Maynard G. Krebs, Dobie Gillis' "beatnik" friend, perhaps the most unconventional character in a situation comedy during this period? Despite his role as a social rebel, Maynard never said anything about corruption in government or the unequal distribution of wealth, nor did he ever really attack the lifestyle of the hopelessly bourgeois Gillis household. Remarkable as it may seem, there were practically no anti-heroes on television in the 1950's, with the exception of Bret and Bart Maverick, and the enigmatic Paladin. Apparently only cowboy fops could be anti-establishment in 1958. There was, perhaps, one politically relevant theme during this period—anti-Communism. If there was a political effect of early prime-time television, it was probably to reinforce support of the cold war through programs like *I Led Three Lives,* which was the best of the anti-Communist genre.

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If entertainment television was almost wholly without political substance or impact—save for its ability to make the suburbs and stainless-steel barbecue sets look good, while making the Russians look bad—television journalism had only slightly more impact. With a few important exceptions—the Murrow-McCarthy case on *See It Now* and the Army-McCarthy hearings have since become romantic legends—television news and documentaries were not major social or political forces during the middle 1950's.

Electronic campaigning, however, had started to come of age. The 1956 election witnessed the first comprehensive effort at Presidential advertising on television. But just as in 1952, the "scientific" literature demonstrated that television was anything but a powerful campaign tool. After the 1956 campaign, it became almost an article of faith among social scientists that the supposed political power of television was only an illusion of the unscientific laity.

One question that continued to surface at this time was whether television was a major cause of widespread conformity to middle-class social values. Or was television merely the effect? I think that the question is important now because the answer itself varies over time. At one time, television was the effect—the 1950's. Since then, however, television has transformed itself into a *cause* of social values and philosophy. But what produced this crucial transformation? The first and more important answer emphasizes the basic changes that were inevitable in an industry like television. The second answer involves a poignant historical incident that was to network television in the 1950's what Watergate was to the Presidency in the 1970's.

The great change

In its first 10 years, television was an organization working toward two goals—saturation and acceptance. It was a new medium, and considerably less diverse in its composition and motives than older, more established media, like radio and the movies. Television was scared of radio, scared of the movies, and even scared of its own sponsors.

Television, so new and so expensive, could be—and was—intimidated. There were few within the industry who seriously regarded television as a political instrument, and even fewer who felt that the industry had any right, let alone a responsibility, to do anything "meaningful." In its prepubescence, television was extraordinarily "uptight." Of course, to some degree, so was everything

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else in the 1950's—except for the greasers, beatniks, and Elvis Presley. But television was an even more anxious institution than most because the developers were terribly uncertain about its long-range prospects. Knowing how big the original capital investment had to be for a station or a network, the developers in both programming and public affairs concentrated on building audience support, ratings, and profits—not on "social engineering."

One other factor seems important in understanding the inability of early television to do anything but reinforce the status quo. Until the 1960's, advertisers produced programs. Independent packaging and packagers came later. Advertisers—still remembering vividly the days in which the undershirt went out of style simply because Clark Gable chose not to wear one in the movies—were the least likely of all the industry people to use television entertainment for any purpose but commercial sales, or in ways that could possibly offend any prospective buyer.

A final factor, of course, was the nature of the times. The "witch hunt" in Hollywood and, more importantly, the publication of *Red Channels: The Report of Communist Influence in Radio and Television* made virtually everyone connected with the industry terribly reticent about doing politically controversial programming (unless it was controversially anti-Communist).

But within 10 years the industry and the country inexorably and inevitably changed and matured. Investments in television proved sound—very sound. With financial security came less anxiety about controversial programming. Advertisers and sponsors became subordinated to the newly developing program packagers. And, of course, as McCarthyism and the cold war began to wane, television had greater license to do less insipid programming, or at least less irrelevant programming.

All these changes meant that a more pluralistic institution would emerge, and it did. But that evolutionary process was hastened by an event that nobody had really anticipated, and nobody really wanted.

In November 1956, on NBC's quiz show, *Twenty-One*, the country saw for the first time a young, scholarly, and handsome English professor from Columbia. In a matter of weeks, Charles Van Doren became a kind of national hero. But it was soon revealed that he, like so many other quiz-show contestants before him, had participated in a cruel national hoax: Several contestants, like Van Doren, had been given at least partial answers to the questions before the shows ever began, as producers fed the answers selectively and se-

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cretly to especially attractive contestants, those whom the audience would love to watch week by week. The subsequent public confession by Van Doren of such cheating dealt a terrible blow to the industry; television quickly came to be regarded as the force that seduced both Robin Hood and Einstein at the same time.

The effect of the quiz-show scandals was what might have been expected from an industry committed to corporate profits and extending itself geographically and financially. The networks and affiliates immediately sought to shore up their image. Within a year the National Association of Broadcasters (NAB) had established the Television Information Office (TIO), the public-relations arm for the industry. TIO immediately commissioned the Roper organization to assess the damage that the scandals had caused. This was the beginning of the Roper poll on television and other media—the most comprehensive set of surveys ever conducted.

In part, TIO did its original surveys hoping to show that the public, despite the scandals, still loved television. But in fact, despite loaded questions on the topic of quiz-show scandals, the Roper survey indicated that television had been hurt badly. More importantly, according to the Roper data, in 1959 clear pluralities believed that newspapers were *more* important and *more* credible than television as a source of information. It became essential to the industry that those pluralities be reversed. To accomplish that, the networks embarked on a campaign to increase the size and quality of their news and public-affairs divisions. The quiz-show scandals thus led to the policy of using news as the principal vehicle for improving the corporate image of television—an industry that is literally nothing without its image. This policy eventually helped bring to television news the new, high-powered talent that had grown up regarding television as a legitimate and desirable place to build a career in journalism. So by the end of the 1950's, television journalism was no longer a specious or laughable commodity.

Television as a political instrument: 1960-1964

It should come as no surprise that television journalism reached puberty before entertainment television did. After all, public-affairs television was actually born first (1939). And despite what Fred Friendly or Sander Vanocur might say, public-affairs television has had fewer popular or commercial restraints upon it from the start —in part because it represented so small a proportion of the entire

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industry, and in part because the Paleys and Sarnoffs of this world *did* believe in informing people (within limits). So by 1960, although the top three shows were *Gunsmoke, Wagon Train,* and *Have Gun, Will Travel,* television journalism was clearly beginning to count.

Without doubt, the single most important development during these years was the Kennedy-Nixon debates. And if the "Great Debates" were a boon to John Kennedy, they were an even bigger bonanza for the media professionals who had services to sell. Indeed, because of the debates, the amount expended by Presidential candidates for radio and television increased by nearly 300 per cent between 1960 and 1964, a rate of increase never achieved before or since. The Kennedy-Nixon debates signaled the beginning of the audio-visual orgy of the 1960's, which finally slowed in 1971 when Congress first limited the amount candidates could spend on television campaigning.

Ironically, the first set of debates made more of an impression on future candidates than on actual voters. The Gallup poll conducted shortly before the first debate had Kennedy slightly behind Nixon. Following the first debate, Gallup found Kennedy was ahead by one per cent. Yet although no study of television viewers showed Richard Nixon as the winner of the first debate, the fact remains that he emerged from that debate—his worst—*with only one-percent less overall support in the Gallup poll than he had had before.*

However, while the 1960 debates may have moved only a small proportion of the popular vote, that small proportion did represent a substantial number of electoral votes. To politicians, winning is the most important thing, and they came away from the debates even more convinced of the power of television, although social scientists and pollsters continued to believe that television was only one "factor" among many, even in the 1960 election. Unfortunately, the debate about the debates turned almost everyone away from the more important questions concerning television, and returned us to the rather narrow question about television campaigns and voting—an issue closely akin to that of environment and heredity, in terms of its desultory effect.

The early 1960's also witnessed another new political function for television. Kennedy, so pleased with the medium that everyone agreed had helped elect him, quickly tried to convert the networks into a large Presidential megaphone. Eisenhower had never liked television and had done badly with it, but Kennedy reveled in it, more than tripling his predecessor's rate of monthly network

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appearances and, quite surprisingly, building a record that even Lyndon Johnson could not match. Only Carter has managed to surpass Kennedy's zeal for and attachment to television.

Kennedy gave the networks their first real opportunity to televise the President in his office, at work, and during his press conferences. In return, Kennedy tacitly accepted the unstated privilege of using the networks to build a more plebiscitary Presidency than any since that of Franklin Roosevelt. There is some irony here, in that Kennedy's innovative use of television—which generally served both the desires of the network news departments and the tastes of the correspondents—helped expand the "imperial Presidency" more quickly than most television journalists would care to admit. Under Kennedy, television overwhelmingly concentrated on the Presidency for the first time. By the time of his death, Kennedy had helped to make both network journalism and the Presidency more powerful forces in American politics.

Interestingly enough, immediately following his assassination, it became conventional wisdom that ABC, NBC, and CBS had "held the country together" during the trauma of what was perceived to be a case of regicide. But in truth, without public-affairs television the shock could never have become so personal in the first place. With radio, it had taken 13 years of global war and depression to cause Americans to cry publicly over the death of Franklin Roosevelt. With television, Kennedy made himself an intimate part of our personal lives in less than three years—and three comparatively uneventful years at that.

The civil-rights movement

Television in the early 1960's was not wholly concerned with the debates or John Kennedy. In fact, during the early part of the decade, television seemed to be shifting power not just *upward* toward the Presidency, but also *downward* toward the photogenic.

Consider the Southern civil-rights movement, the first real issue that television news ever covered on a recurring basis. The movement became the first continuing saga of network journalism because it was so much an audio-visual phenomenon. Even McCarthy and the "witch hunts" were less entertaining, especially for any great length of time; both had a limited tenure or appeal. The televised crime hearings that made Estes Kefauver a household word in 1951 were also interesting programming, but more so because television itself was very novel at the time. The Kefauver hearings

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were actually only so many "talking heads." And during those halcyon years, hard as it may be to accept now, criminal elements chose to refrain totally from committing felonies on live television.

But the problem of Southern race relations was nearly perfect for television. It was a basic constitutional and human issue, with easily distinguishable and very photogenic heroes and villains: Martin Luther King, Bull Connor, Orville Faubus, and the inimitable George Corley Wallace. Moreover, the South at the time was so far out of step with non-Southern cultural values and opinions about race relations that television journalists could be civil-rights advocates, and get away with it. Given the uniqueness of Southern de jure segregation, desegregation was a political issue requiring less "fairness" than most others. The Federal Communications Commission—unlike Congress—was not within the control of a white, Southern oligarchy.

Like the abolitionists who had come a century earlier, network journalists became famous in the North as champions of a just cause—and became infamous in the South, where by 1963 the networks were referred to as the African Broadcasting Company, the Negro Broadcasting Company, and the Colored Broadcasting System. As an indication of the extent to which "integrationism" had penetrated the psyche of the television news departments, consider that Howard K. Smith, now regarded as the most "conservative" of all major network anchormen or commentators, left CBS in 1961 largely because he took so strong a stand against racism and segregation in his documentary presentation, *Who Speaks for Birmingham?*

The televised images of the civil-rights movement were unusually vivid, and they left an impression: Congress was affected, Northern attitudes toward the South were affected, white perceptions of blacks were affected as well. Between 1960 and 1964, the percentage of non-Southern white Americans supporting integration increased at a substantially greater rate than during the 1950's, or any other decade in this century. It has been widely and plausibly assumed, if never proved, that the "liberal" news programming and documentaries of the networks produced this acceleration.

At a minimum, television coverage of the early civil-rights movement altered the public's notions as to what the political agenda should be. In that regard, the "March on Washington" in August 1963 was the greatest public-relations gambit ever staged—staged as it was for television. Between the spring and summer of 1963, the percentage of people regarding civil rights as "the most important

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problem facing America" increased by a factor of 13—from four per cent to 52 per cent, a shift in perceived public priorities never achieved before or since in so short a time.

One of the most important lessons of this period was that television news and television documentaries provided a new and powerful political resource. Television allowed for a previously unattainable level of governmental access for groups who had few of the traditional resources. *Television became an important means for redistributing political power from the haves to the have-nots.* All the media do this to some extent—but none to the degree possible with network television. The have-nots could quickly reach the government by doing something literally visible enough to merit attention. Obviously, sensationalism has always meant press coverage, but television made the principal criterion a visual one. That inevitably meant a shift in power toward those groups wretched or angry or clever enough to do what was needed to become photogenic.

During the early civil-rights era, the capacity of television to redistribute political power was not only obvious, it was also generally held to be among the greatest political reforms of the time. During the late 1960's, however, when this redistribution of power came at the expense of urban or Northern political elites rather than Southern Congressional-committee chairmen, and as the spotlight shifted from the NAACP to CORE and then to SNCC, the unique power of television was regarded somewhat less positively. By the 1970's, when the most "photogenic" groups had become international or local terrorists, this redistributive character of network news coverage had become one of television journalism's greatest stigmata.

By 1964, it had become clear that what was good footage for the networks could become a national priority overnight—perhaps without respect to the merits of the case. It was not simply a matter of terrorists eventually coming to steal attention on television. It was that the needs of the television news organizations had already begun to define our political agenda for us—as newspapers and radio had done before, but with less force and without the overwhelming commitment to what might be called the "tyranny of film."

Putting the civil-rights movement on network television had important implications for television, as well as for the movement. It helped to secure a better image of the industry among the sophisticated. With the issue of civil rights, television started to achieve

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its full legitimacy. Some of the finest talent in America came out of the Ivy League and down to Mississippi and Alabama—some with the NAACP, some with the *Times*, some with CBS and NBC. By 1964, the best students nationwide could unabashedly seek a career in the new television news system. In that year too, the print media tacitly but grudgingly recognized the new preeminence of television journalism by agreeing to pool the wire services with the network news departments, forming the News Election Service (NES). With NES, the print media swallowed their pride in the written word so that their editors could again receive voting returns a little more rapidly than the average citizen could by simply watching television at home.

Videopolitics: 1963-1972

Most Americans, young or old, probably remember 1963 as the year that John Kennedy was assassinated. But media freaks remember it as the year that CBS, NBC, and eventually ABC switched from a 15-minute to a 30-minute format for evening news. I think that a case can be made that the latter development was, in the long run, every bit as important in our political development as the former—that the 30-minute news program that began in 1963 altered the basic process of political communication in the United States. Given the events of the next 10 years, one can make a case that the emergence of the television news system after 1963 was probably among the two or three most important political phenomena during the period 1963-1972.

When Kennedy became President in 1960, he expressed his belief that *Time* magazine was the most important opinion-maker and news source in America. He was probably right to assume that we were then still dominated by a print news system, even after the Kennedy-Nixon debates had taken place. But had Kennedy lived, he probably would have noticed that by 1963 we had left the older system for a new one—the television news system. In such a system, the public comes to depend more upon television than newspapers for political information, and political leaders come to regard network news as the most important mechanism for reaching the public.

Interestingly enough, it was in 1963 that the Roper organization demonstrated for the first time what the NAB and the networks had worked so hard to achieve—a plurality of the public regarding television as a more important source of political information than

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newspapers. And it was also in the early 1960's that Robert Kennedy was quoted as saying that 30 seconds of coverage on the nightly *news* was worth 100 times as much in political persuasion as a television *ad* of comparable length. We do have a television news system in the United States today, and we have had one since 1963.

To understand the effects of the television news system, it is essential to understand its attributes, some of which are unique, some of which are merely extraordinary. One unique characteristic is that its audience is an *inadvertent* one—which, in large proportion, does not come purposely to television for news, but arrives almost accidentally, watching the news because it is "on" or because it leads into or out of something else. There is obviously some of this accidental character to all news audiences, but the television audience is overwhelmingly inadvertent. In what is probably the most thorough investigation ever conducted into the motives for watching television news, Richard Hofstetter, at San Diego State, found that 87 per cent of the television audience watches network news for "non-political" reasons. As unpalatable as this may be to news producers or television correspondents, the people who "watch" the news—more often than not—have almost literally fallen into the audience.

This inadvertent audience is enormous—40 million viewers nightly. But the size of this audience is not as important as its composition. *Compared with all other news audiences, the television news audience is disproportionately drawn from the low end of the social spectrum.* The people who watch the most television news, in absolute *and* in proportional terms, are among the least well-educated and least "connected" individuals in our mass society. This is unprecedented for a news audience, and completely reverses the general pattern of high correlation between news consumption and socio-economic status. And since television is watched or at least tuned in from start to finish, the inadvertent audience is again unique, not only because it comes into contact with some news, but also because it comes into contact with "all" the news—as the networks provide it.

Because of its size, composition, and constancy, the evening news audience is singularly vulnerable to the messages it receives. Before the advent of the television news system, the inadvertent audience was *potentially* vulnerable to a host of politically relevant influences through various news media. But without television news, not enough information reached this audience to realize its potential. Consequently, *before the television news system, those who*

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consumed meager amounts of news proved to be both highly stable in their political opinions and very passive in their pattern of political behavior. This audience was, at that early stage, literally a silent majority. *But with television, this formerly quiescent political stratum could become—and did, for a short while—one of the least stable and least quiescent portions of the public, as television news came to act as a stimulus.* That was perhaps the inevitable outcome of bringing political information—especially the kind of information the 1960's provided—to those previously connected to politics by civics books, by headlines, or by precinct workers.

Television news is different

Even if the messages of television journalism had been precisely the same as those of the print media, we might still have expected that the television news system would have had special impact—simply because so many more "unconnected" people would have been receiving information about politics than before. But the messages are not and have not been the same. Television news has always been different from print—even in the Swayze era—and the differences between the two have in some respects become more important since 1963.

First, television news is national news; print news is not, and has not been. We have never had a national daily newspaper, except for the *Wall Street Journal,* and the focus of news had always been local until the coming of the television news system. But the focus is now unmistakably national.

This national orientation may seem trivial at first. But in a system in which news is defined as that which is extraordinary, sensational, abnormal, or bad—which is undoubtedly the American definition of news—the geographic focus is per se extremely important. *When television shifted its focus toward Washington, it was only a matter of time before "Washington news" would also shift our political frustrations toward Washington,* instead of toward city government or the state capitals. Perhaps one of the least observed but most important trends in public opinion during the years following the establishment of the television news system was that the public confidence in state and local government remained constantly low (as the negative information about those levels of government continued at the same absolute levels) but that confidence in the federal government declined—and presumably at a rate inversely related to the emerging preeminence of network news.

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To be sure, the government in Washington during the 1960's was doing little to maintain public trust. But one might well argue that the loss of faith was as much a function of the new geographic focus of our major news medium and the growth of its inadvertent audience as it was anything else. Perhaps the television news system merely gave unprecedented, if honest, attention to what had always been standard operating procedures for government. But with the new attention, the new focus, and the new audience came a new *impact*.

Television news differs from print news in several other respects. Television tends to be more "intense" than print news—selecting a few topics, issues, or areas for coverage and returning to them incessantly. My analysis of news coverage of the 1976 Presidential campaign indicated that, compared with the print media, television concentrated on far fewer primaries, even adjusting for the greater "length" of newspaper coverage. In fact, in the early campaign, television devoted more than half of all its coverage to one state alone—New Hampshire. Newspapers—both chain newspapers and prestige newspapers—allocated far smaller amounts of their "news hole" to New Hampshire. One sees how insistent network news can be in following its favorite topics by comparing the election-night coverage given to the New Hampshire and to the New York primaries. In absolute terms, the election returns from New Hampshire received almost four times as much coverage as the returns from New York. Focusing on the Democratic primary, I found that in proportion to the number of votes actually cast, each New Hampshire vote got 170 times as much coverage as each vote cast in New York.[1]

Obviously, the fact that each of Jackson's votes in New York got less than one per cent of the news attention that each of Carter's votes received in New Hampshire was important to the candidates. But the general propensity for concentrating coverage in television has greater implications. The extra intensity of television news makes it likely that public perceptions of politics are potentially more vulnerable to media-based influences. My own survey data from last year's campaign indicate that people monitoring the primaries through television were quite likely to reflect directly the exaggerated coverage of New Hampshire that characterized television news. People relying on television for information about the

[1] See my article, "The TV Primaries," *The Wilson Quarterly* (Spring 1977), pp. 80-83.

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primaries were twice as likely as those relying on print news to overstate wildly the actual number of delegates at stake in New Hampshire.[2]

A good deal has also been made of the alleged partisan differences between television news and the print media. On balance, it is probably fair to say that news people on television tend to be more liberal than those in print journalism. But the news itself does not always or does not generally reflect this—especially if we contrast the networks with the major newspapers. If we define "partisan" or "liberal" merely in terms of party affiliation, it is not so clear that there is a consistent pro-Democratic bias in network news. With respect to the 1972 election, in the longest, most comprehensive content analysis ever done of television news, Richard Hofstetter demonstrated that Nixon got *significantly more positive coverage on television* than did McGovern. And if news time alone is any indication, my data show that Ronald Reagan was the network "darling" during the early phases of the 1976 campaign. In short, the issue of "bias" remains open.

But even ignoring the question of "partisan" bias between the two media—print and television—the remaining list of contrasts is still quite long. Television news is more *thematic* than other types of news; only the shortest items—those less than 30 seconds—lack a didactic conclusion or message. Especially since the development of the 30-minute newscast, television tends to offer us "stories," not news items. Television news also tends to concentrate more on personalities. The tendency to "Kissingerize" foreign policy—to regard it as one man acting alone—was even more pronounced on television than in print, if not so pronounced in either medium as in the former Secretary's mind.

When contrasted with daily newspapers, television journalism also tends to be more sensational. Patty Hearst probably attracted more attention on network broadcasts, in percentage terms, than in any of the major dailies, except for those in California. And the local television stations in California hung onto the story more closely than any of the local publications, including the Hearst papers.

Television news also seems likely to romanticize the past more than other media do. Indeed, the past is about the only thing the networks do romanticize. And although it has been only recently

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[2] See my article, "Television News and the Presidential Nominating Process: The case of Spring 1976" (unpublished manuscript, January 1977).

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and partially documented, network journalism tends to be more "anti-establishment" than print journalism, especially compared to the non-prestige newspapers. This tendency is perhaps no greater at CBS than at *The New York Times* (although one recent study does indicate that CBS outdoes the *Times*). But even if there were no differences between the two media in this regard, CBS reaches everywhere and the *Times* does not.

Finally, television has an audio-visual quality the other media lack. Most of the research in this field indicates that this obvious and unique quality makes the content of television more memorable and evocative, if not necessarily more persuasive. And seeing journalists, as opposed to reading them, makes anchormen and correspondents both more familiar and more credible. Walter Cronkite is more likely believed because he is seen, than seen because he is believed.

Videopolitics and the party system

What have been the effects of the first 10 years of the television news system—the decade of videopolitics? One must begin by conceding the difficulty of saying what was causing what between 1963 and 1972—regardless of the type or quality of data chosen. Nonetheless, several types of data suggest that television journalism, as a whole, did engender some fundamental political changes during this period—changes in our political institutions, our traditional patterns of voting, our public opinions, and our political ethos.

The effects of television on our institutions have been evolving for some time, beginning well before 1963. Keeping in mind that the media may affect either the *internal workings* or *external significance* of any institution, I believe that the influence television has had on the internal operations of our major institutions has been a direct function of the amount of coverage each has either attracted or allowed to take place. Beyond that, I believe that the real significance an institution has in the political process, in a television age, is related to its ability to attract television coverage and *at the same time* to maintain one or more critical activities distinct from the coverage it attracts. All this means is that an institution that can attract lots of television coverage, knows how to accommodate such coverage, and maintains an important area of authority beyond that coverage will grow more powerful. The Presidency is the obvious case. But an institution with few resources to begin with, which attracts or solicits television in order to build a new political resource for it-

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self, will inevitably *lose* power. The political parties seem to be in precisely this predicament.

The national parties have probably sought and permitted more involvement with network news than any other national institution has. The national nominating convention, the major activity of both parties, has been voluntarily transformed into a television news extravaganza—to a degree that no other national political event could even begin to approach. Conventions have become the superbowl of network news. Although this began well before 1963, it is not coincidental that the 1964 conventions seem to have been a turning point. Lyndon Johnson played the Atlantic City convention almost as if it had been a television news special—which it was. (At that convention the Democratic National Committee decided to use a television movie about itself as the "real" keynote address, something both parties have done ever since.) At the Republican convention in San Francisco that year, Dwight Eisenhower acknowledged from the dais that television news was the most important—and in his opinion, the most deleterious—influence at the convention. John Chancellor—intruder that he was—was arrested at that convention while telecasting from the floor, and the most popular convention button was "Stamp Out Huntley-Brinkley."

But the effects of television on the national parties go much farther than the convention floor. The parties, in a weakened condition ever since the reform movement began, tried using television strategically during the 1950's. In some respects, that was a fateful mistake on their part.

As television became more important as a campaign tool for the national parties, it became an even more important vehicle for candidates, who used it as their principal mechanism for winning both primary and general elections—thus bypassing the parties. In that way, television denied the parties their most important function —the right to recruit and campaign for office-seekers. At the same time, television was also taking from the parties their role as a major source of information about local or national campaigns and politics, a role they had held since the Jacksonian era.

Perhaps the most interesting example of the parasitic relationship between television and the parties (especially the Democratic party) involves the marked tendency of state legislatures since 1964 to seek national network coverage of primary elections so aggressively that even the state parties have suffered somewhat as a consequence. Television networks do overload heavily on primary states during

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Presidential elections, and state legislatures do what they can to attract as much network news coverage for their states as possible. Switching from conventions or caucuses to Presidential primaries is something state legislatures can do to increase their visibility with little *immediate* cost. Between 1964 and 1972, the number of primary states doubled, at least in part because television news made primary politics so much more attractive in terms of television coverage. But in the long run, this shift toward primary politics, which the networks have perhaps unwittingly encouraged, weakens state parties almost as much as national parties. State legislatures have rarely seen it that way, however, and it is widely anticipated that Puerto Rico will adopt a Presidential primary in 1980, to be held a full month before that of New Hampshire, so that Puerto Rico can get the network attention it feels it needs and deserves. And Maine, now a caucus state, has apparently decided to challenge both New Hampshire and Puerto Rico for the lead position with its 1980 primary.

One important outcome of this usurpation of the parties by the media has been that network news has emerged as "the loyal opposition," more so than even the party out of office. *It is now the networks that act as the shadow cabinet.* As the Republican leadership in Congress begins to criticize Jimmy Carter, one surmises that the Republicans almost accept the fact that they are acting as merely a supplementary check on the President—less powerful and far less familiar than the networks. Indeed, they try to make their opposition felt through television, and they adopt a photogenic leader like Howard Baker to make the best case possible.

This mismatch between parties and network television has had one somewhat humorous side effect. Network journalism, which helped to nullify the meaning and significance of the national nominating conventions (by placing the power to nominate in other hands than the parties) has begun complaining that the nominating conventions are boring and trivial—merely media events! This would seem to be the *coup de grâce,* a demonstration of how quickly and comprehensively the television news system can undermine an institution that is already weak, and that turns to television to salvage it.

Television, the "Imperial Presidency," and Congress

The Presidency, of course, is at the other end of the continuum. Singular and bristling with Constitutional authority, the Presidency

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has always been the likely place for political power to accumulate, and the media to congregate. Here television wanted to be, and was allowed to be, as television served to increase the acceleration toward "imperialization." Indeed, the Presidency has the unique mix of media attractiveness and clearly defined institutional authority that virtually insures an advantage for the office itself, despite the case of Richard Nixon.

But as the example of Nixon suggests, there is another possible, paradoxical, and unsettling ramification of the television news system for the Presidency. While television, through its nearly compulsive predilection for the Presidency, has probably made the office more powerful, it may also have rendered the authority of the President less legitimate. We see, close-up, all the shortcomings of the successive incumbents. The result may be a new sort of equilibrium in Presidential power, in which *television helps move power toward the office but detracts from the legitimacy of the office-holder.* Whatever the final balance, it is interesting that our communications system may centralize authority while rendering the authorities themselves less respectable.

If television increases the power of an inherently powerful institution like the Presidency, but diminishes the power of inherently weak institutions like the parties, what can we expect from an institution that lies in between? Congress is such an institution, and the current debate over televising its proceedings is couched very much in terms of the dilemma just posed.

As an object of network attention, Congress cannot compete successfully with the Presidency. And for a number of reasons, Congress did not even try to accommodate itself during the 1960's to the new medium of communication. Congress chose to use television principally as a campaign tool, and prohibited television journalism from the more important policy-making activities. This limited involvement with television meant few basic changes in the Congressional process. The networks, however, working with and on the Presidency, proceeded to make the Congressional process itself much less significant than it had been. By rejecting television, *Congress saved its internal organs, but perhaps at the price of its external meaning.*

The real question now is whether Congress has the capability of accommodating television without becoming an arm of the communication process, as have the parties. Bringing in the cameras will clearly change some of the ways Congress chooses to conduct its affairs, perhaps for the better. But, somewhat paradoxically,

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keeping television out of Congress at this point may be the better overall strategy, if the larger purpose is to hold on to policy-making authority. Like the parties, Congress may be outmoded in ways that transcend media strategies. And given the new strains and tensions in the contemporary Congress, bringing in television and establishing a new type of Congressional leader—the media expert —may be the right plan at the wrong time. If so, television is more likely to do to Congress what it has done *to* the parties than what it has done *for* the Presidency.

The only conclusion that seems certain is that *the television news system has a symbiotic relationship with the strong institutions and a parasitic relationship with the weak.* Among the major non-elective institutions, only the courts have been able simply to refuse to accommodate themselves to television without paying a price.

Videopolitics and the electoral connection

The impact of the television news system on the electorate has been much more radical than its impact on institutions. I would guess that 1963 was once again the pivotal year.

Through 1960, the standard pattern of voting was to support the nominee of the party to which one felt the greater psychological and sentimental attachment—almost regardless of the issues or the candidates. That pattern existed throughout the 1930's, 1940's, and even the 1950's. In 1960, psychological attachment to party was statistically as great a factor in voting choice as it had been in 1940. But by 1964, in the first Presidential election held under the television news system, images and issues, according to Herbert Asher at Ohio State, were almost three times as important a predictor of vote as they had been in 1960. Goldwater's candidacy no doubt played some role in this, but it was as much a function of the changing communications process as anything else. In 1964, for the first time, it was the *least* politically involved who were *most likely* to vote "issues" instead of "party," and this development was surely an outgrowth of the "inadvertent" television news audience and of the special concerns of network news.

Nonetheless, in one sense, the greatest electoral change that emerged in this period was not simply the growth in "issue voting." Nor was it the unprecedentedly rapid increase in the number and percentage of political independents, another crucial post-1963 phenomenon in which network journalism played a role. (By covering both parties in a less than favorable light, and by giving view-

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ers more information about candidates than they would otherwise have received, network news made partisan loyalty both less desirable and less useful.) *The greatest change was the shift toward a more plebiscitary process of electing leaders—in which television journalism provided a more direct link between the public and the candidates than had ever existed.* The direct contact between electorate and elected was obviously little more than an illusion, but it was, for the first time since the colonial period, unfettered and unmediated by party or any other large political organization. The contact was made instead through media consultants, professional campaign coordinators, and especially through network news. For good or ill, this is nothing less than a quiet revolution in the traditional American idea of representative democracy. At a minimum, this new system has rendered obsolete the old theory of a "two-step flow" of communication—the widely held notion that political information flows from the source to opinion leaders, and only then to the public. The television news system circumvented both party and opinion leaders, and in the process not only rendered the electorate less committed to partisan identification but also left it considerably more sensitive to images and issues.

But despite the fact that television journalism has fundamentally rerouted political campaigning, television—especially television advertising—is not the omnipotent force in electoral politics that some have assumed it to be. Richard Nixon did not, as Joe McGinnis asserts, buy his election in 1968. In fact, the more money Nixon spent in the general campaign, the worse he did in the polls. And in 1972 it was the Democrats and McGovern who demonstrated that neither outspending one's opponents on television ads nor attracting more attention on network news (both of which McGovern did) could produce a victory—or even a strong showing by a loser.

Yet this debate about buying elections still remains open, because regardless of what social scientists may claim, it is impossible to measure the precise effects of television campaigns on electoral behavior. Social scientists can only measure the quantity by which a candidate outspends an opponent, never the "quality" of the media campaign itself. Using dollars as synonymous with "effort" is simply a methodological fiction. To outspend an opponent by a factor of two—but to spend badly—may actually cost votes. Nonetheless, in perhaps the three most important pieces of research done in the last five years in this thankless area of assessing the electoral impact of campaign television—by Richard Hofstetter at San Diego State, Robert McClure and Thomas Patterson at Syracuse, and

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Gary Jacobson at Trinity College—the findings have been reasonably consistent. As a rule, *ad campaigns do not directly buy many votes.* For obvious reasons, most of the "bought" votes come in primary elections—or, for less obvious reasons, in Senatorial campaigns. At the Presidential level, in the general election, the effects are minimal. McClure and Patterson estimate that in the 1972 Presidential election only *one per cent* of the eligible voters were "manipulated" by television advertising. The belief that television ads directly buy many voters is as unsophisticated as the notion that lobbyists directly buy many Congressmen. The process of influence in both exchanges is much more subtle.

Television in its entirety clearly *influences* elections, but this process cannot be reduced to the number of dollars spent or the amount of evening news coverage. Indeed, I have argued elsewhere that Richard Nixon would have lost in 1968 had it not been for the network news coverage of politics between 1964 and his election.[3] And in 1976, Gerald Ford's dramatic come-from-behind surge to near victory was remarkably linear in its development—suggesting that voters were responding to forces other than television campaigns. Carter spent his money early on, Ford late; but the relatively steady movement back toward Ford began with his nomination.

Significantly, it was the Ford-Carter debates—especially the "Polish freedom" debate—that showed once again the greater potential electoral effect of network journalism than of ad campaigns. The second debate confirmed what no spot could do by itself: It made people feel that Ford might not be competent to be President. The real impact of network journalism, however, is demonstrated not by the second debate alone, but by the *development* of the public response to it. The survey data show unambiguously that *the public did not realize how serious and significant the "Polish blunder" was until network news told them.* According to Robert Teeter, on the night of the second debate, Ford actually held an 11-percentage-point lead over Carter (as measured by responses to the question about "who won"). Twenty-four hours later, Ford was 45 points behind Carter—a net loss of 56 percentage points!

On balance, the 1976 election revealed once again that television news is the crucial mechanism for determining the candidate's image, and that the television news system has made image more

[3] "Public Affairs Television and the Growth of Political Malaise: The Case of the Selling of the Pentagon," *American Political Science Review* (June 1976), pp. 409-432.

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important than ever before. But the election also demonstrated again that ad campaigns are not the major determinant of the vote —or anything close to it. Carter has even conceded that Ford won the television ad campaign; Carter, on the other hand, won the election.

One final point about television and electoral politics: By 1968 television journalism had become not just the primary source of campaign news, but to ever increasing degrees, the *only* source of campaign news, as older viewers came to regard television news as "enough" and younger viewers matured under a system in which Cronkite, Brinkley, Chancellor, and Reasoner *were* journalism. Quite remarkably, between 1964 and 1972 the percentage of people relying *solely* on television for information about national campaigns doubled. By 1972 television had unquestionably become the electoral connection.

Videopolitics and the political ethos

The most noteworthy effect of the television news system during the 1960's was not on individual party preferences, or attitudes toward the "New Deal," social welfare, communism, or any of the "major" issues of our era (as the pollsters define them). Indeed, the television news system may have affected those opinions only slightly during the period 1963-72. The most notable effects were, instead, upon the political *ethos* of the American people.

Keep in mind that no one has unassailably demonstrated the direct effect of network news on such traditional political concerns as the redistribution of wealth, civil liberties, or foreign policy. In fact, on such issues the evidence usually runs the other way. John Robinson, for instance, found that despite the fact that all three networks made an unprecedentedly harsh attack against Mayor Daley and the Chicago police for their performance at the 1968 Democratic Convention (Walter Cronkite called the Chicago police "thugs"), *the public overwhelmingly sided with the police.* Although eight out of 10 Americans knew that the networks had sided with the demonstrators, three out of four people with an opinion felt that the Chicago police had used the "right amount" or "not enough" force to quell the demonstration!

But despite this example, which says more about the inability of television news to sway public opinion on salient issues within a very short period of time than anything else, there is evidence to suggest that the television news system of the 1960's did have a

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fundamental impact on public attitudes toward politics—more so than the "voting-studies approach" could readily uncover.

National survey data support the conventional wisdom that 1963 was a watershed in the development of the American political culture. What had proven to be a "civic culture" in 1960 was by 1963 becoming an "uncivic" culture. Optimism, idealism, nationalism, and liberalism—the basic values of postwar America—were all in retreat by 1966, and were already waning by late 1963. Events did have a major role to play in these transformations in the American political ethos. But events must be communicated, and the television news system to some measurable degree communicates different events than other news systems, and treats the same events somewhat differently. Without discounting the importance of Vietnam, urban insurrection, and Presidential assassination, I would argue that the television news system helped to foster and to amplify the changes in our political culture—changes such as the increasing levels of cynicism, pessimism, alienation, and estrangement; the increasing concern with law and order, and the "social issue"; and the growing fascination with "backlash" politics generally, and with George Wallace specifically.

With two separate types of data I have elsewhere tried to demonstrate this phenomenon statistically, with a fair measure of success.[4] But it is clear that to some degree during the 1960's, and most of all in the latter part of that decade, there was a relationship between television dependency and a sense of political malaise. The starkest findings seem to emerge in the analysis of support for George Wallace in the 1968 campaign. In that campaign, those who did not rely at all upon television, on average, gave Wallace a "thermometer score" (personal rating) of only 28 out of a possible 100 points. But respondents relying principally on television gave Wallace a score of 35, and those relying *only* on television a score of 41. (These differences among the groups could not be explained away by holding constant the level of education of the respondents.)

This is not to say that television dependency was the best predictor of support for Wallace or Wallacism. To be a Southerner was

[4] See my articles, "Public Affairs Television and the Growth of Political Malaise: The Case of the Selling of the Pentagon," *American Political Science Review* (June 1976), pp. 409-432; and "American Political Legitimacy in an Era of Electronic Journalism: Reflections on the Evening News," in Richard Adler, *Television as a Social Force: New Approaches to TV Criticism* (New York, Praeger, 1975), pp. 97-139. See also Michael J. Robinson and Clifford Zukin, "Television and the Wallace Vote," *Journal of Communication* (Spring 1976), pp. 79-83.

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more important than to be a television freak. But the relationship between television dependency and the shift toward Wallace and toward pessimism, misanthropy, frustration, etc., does emerge in the 1968 survey data—and, significantly, more then than at any other time. Other reasonable interpretations abound, but this theory of "videomalaise" has at least some explanatory power.

None of this, however, implies that the networks altered our politics in the 1960's for personal or partisan reasons. In fact, the political values and affiliations of the television journalists tend to run directly counter to many of the television-induced effects suggested here—most clearly the movement toward Wallacism. Nor does it follow that "videomalaise" was then, or is now, unpatriotic or sinister. At worst, "videomalaise" may have followed from some orientations in television news that tend to be somewhat "unfair."

One such "unfair" orientation is the propensity of television news to use few, if any, quantitative studies to monitor the state of the nation or society. By ignoring such studies, for reasons that are anything but difficult to understand, and relying instead on anecdotal but filmable evidence, the networks produce an image of society that tends to be both melodramatic and probably inordinately negative.

But such tendencies, despite their effects, were never *intended* to be unfair, let alone unpatriotic. "Videomalaise," as it existed then, or even now, is not the product of "un-American" motivations. It was more the inevitable outcome of a new focus in news, a new audience for news, and a special set of professional values and norms in the new generation of network news people. Still, the theory remains: that with its special characteristics and with the material it had to choose from at the time, television journalism helped to make the politics of the 1960's what they were—the politics of "backlash," Wallacism, alienation, and anomie.

The style of the 1960's

We have already considered a number of factors that explain how television journalism produced such an impact. But in keeping with our original plan to explain changes in television as well as politics, it seems appropriate to consider more generally why television journalism changed, and why television did not try to work against some of the trends of the 1960's that it helped to start or maintain. Some of the reasons are obvious; some are relatively abstruse.

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The civil-rights movement, which had done so well on television during the early 1960's, was doing miserably by 1964. Needing new and filmable leaders, television journalism made household names out of Stokely Carmichael and H. "Rap" Brown—two classic cases of videopolitics. Quite remarkably, by 1966 the medium that had used images to promote the civil-rights movement was dealing in images that would nearly destroy it. To be sure, events *had* changed. But part of the change was the result of the almost insatiable need of the networks for competitive news film. (The networks also had the news and camera teams housed in big cities—where the news bureaus are. That made riot coverage not only dramatic but simple.) By 1968, despite the continuing pro-integrationist philosophy of the news corps, the pursuit of truth—and of film—by the networks had convinced most white Americans that most black Americans were violent, if not criminal.

The war in Vietnam is always a factor in discussions of the 1960's. The war helped to confirm the traditional suspicions that journalists tend to feel toward all political authority. Until Vietnam, wars had generally reduced the tension between press and government; Vietnam was unique in its ability to divide the two completely. And television, more than the print media, came to be regarded as the leading antagonist of the government. The military, like the public, soon literally began to recognize the television journalists more than their counterparts in the other news media. And television journalists came to be seen as the ones who counted. As the war went on, this recognition factor meant more government antipathy toward the networks than toward almost any other news source. Even if the *Times* was as antagonistic as CBS, the latter reached much more of the general public—as the general staff well knew. And because the war was so long and so controversial, both television and the government could repeatedly point to the other's latest deceit or unfairness to justify its own. So because television "counted" and because television was always seeking and getting pictures that hurt the military and the government most visibly, by the late 1960's the tension of this relationship fed on itself, producing some of the most self-righteous "prestige" journalism in the last 50 years—not to mention the worst "credibility gap" in anyone's memory. The result was not only public alienation, but also a tendency in television journalism to accept its own news and news formats as beyond criticism. By 1972, Ernest Lefever could repeatedly demonstrate—with relative ease—a clear anti-military orientation in network news, especially at CBS.

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But there are two less obvious factors that helped change television news in the 1960's: the serious need for more new journalists after the networks expanded their news operations in 1963, and the emergence of the American counterculture among the young.

By 1963, the networks needed larger staffs to help fill up the extended news day and to deal with the news boom of the Kennedy years. The basic strategy was to hire younger reporters and younger crew members from either the network affiliates or the "owned and operated" stations. Younger journalists cost less, demand less, bend more—and, obviously, there are always more of them. However, as John Johnstone, Edward Slawski, and William Bowman note in their very thorough, very recent survey, *The News People*, younger journalists are also more aggressive and more amenable to "new journalism" than their older colleagues. And on television, younger journalists, reading on film, are less easily edited than their counterparts in the print media. It was a very young news corps that filmed and wrote about the urban riots, campus violence, and the war in Vietnam—that set the tone for network coverage in the 1960's. By 1967, David Brinkley, Chet Huntley, and Walter Cronkite had all publicly expressed some reservations about the less than professional young network journalists, especially the youth corps in Vietnam. (Interestingly enough, the television youth corps of the 1960's has stayed on and aged 10 years, and the tone of television news has changed somewhat as well. Perhaps one should never trust a television journalist over 40.)

Finally, television news emerged as it did in the 1960's simply because the 1960's themselves had to be different from the 1950's. By the 1960's, styles were changing more frequently than every 10 years, and the styles of the 1950's could no longer be maintained—especially by those of sophisticated taste or fashion. The counterculture that eventually emerged was in great part a vogue, and as with all vogues, its greatest appeal was among the young and those most in need of being recognized—the two types of people most likely to be seeking and finding a career in television news in the 1960's. And television news people in general, like those associated with the performing arts, have always been sensitive to "style"—there are no baggy pants among the network news corps.

The point, however, is not that the counterculture influenced all the news directly, but that the new style influenced some of the news indirectly. Until the emergence of television, styles—social and political—changed quickly in only a very few places, slowly almost everywhere else. But television began to make changes in style occur

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much more rapidly. This was not a problem when all that was involved was the latest dance. But in the 1960's, television news also started to suggest changes in salient social and political "styles" as well. As the provinces—the inadvertent audience—came in contact with this type of news through television, there was even more reason for their growing alienation and malaise.

This does not mean that the networks were lying or purposely misleading us in the 1960's, or that the government did not merit some contempt during that decade. But the nature of the times, of television, of the new television news corps, and of the inadvertent audience all contributed to the growth of videopolitics and the new role of the networks in shaping the American political culture.

Politically "relevant" prime time

The social forces unleashed in the mid-1960's did to entertainment television what the early part of the decade had done to television news. Television programmers and their shows grew more political, as Burbank learned about war, racism, and radical chic. By the late 1960's, the new generation of television producers began to wear their "relevant" programming like a badge. Social status became a function, to a growing degree, of the ability to produce a hit with a "message."

Laugh-In was a breakthrough in this regard, and so to a lesser extent was the *Smothers Brothers* program. Why variety programming led the way toward "openness" in television is hard to explain, but by 1968 politically "relevant" variety shows were a recognizable genre, and their messages were, I think, doing what the network journalists were secretly hoping to do—move audiences toward social, sexual, and even political liberalism, or at the very least toward "secularism."

As the decade changed, this "message" genre became even more popular and less direct—or at least more subtle, as the slapstick relevance of variety programs spilled over into situation comedies. Norman Lear and his friends—*All in the Family, Maude, The Jeffersons*—were the first family of politically relevant situation-comedy spinoffs, and since 1969 Lear has continued to win the favor of most of the critics. But Mary Tyler Moore and Grant Tinker perhaps represent a more important case. Less political *but more socially "relevant"* than most of Lear's programs, the MTM programs made the cultural and sexual values of the liberal establishment look both cute and responsible at the same time.

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After Lear and MTM came the action-adventure people. As early as the late 1960's, the dramatic shows tried to pick up on political "relevance": *Store Front Lawyers, The Young Lawyers, Mod Squad,* etc. Most of those failed in the ratings, or started out big, and then petered out in the second season. But following the modern situation comedies, producers of prime-time drama discovered the salability of sexually oriented plots. By 1976 it became almost a cliché to see action-adventure television featuring rape, bisexuality, homosexuality, abortion—week by week. Traditional sexual attitudes were conspicuously absent in such programs. By 1974, nobody in television could attack homosexuality as wrong and get away with it —not even Anita Bryant, as it now turns out.

One trend given legitimacy by virtually all prime-time television was the inchoate women's movement. Mary Tyler Moore and "Mary Tyler Moorcism" seem to have been unusually effective in "consciousness-raising." Between 1958 and 1969, the percentage of women accepting the idea that a woman could serve effectively as President actually *declined* by three per cent. But between 1969 and 1972, the proportion of women who came to accept the idea of a female President *increased* by 19 per cent. The National Organization for Women (NOW), which had been established in 1966, had had little or no effect on women's attitudes during its first three years; if anything, NOW merely provoked the development of an anti-feminist backlash among women. But during those first two seasons in which Mary Richards and Rhoda Morgenstern came to television, the level of public support among women for a female President increased more than during any other two-year—or 10-year—period since the 1930's.

The trend toward "secularizing" social values may have reached its peak in 1975, with the reunification of Sonny and Cher on network television—not as husband and wife, but as a formerly married couple, with the wife pregnant by her second husband.

It is almost impossible to demonstrate the dramatic shift in entertainment television without listing the leading programs. On the next page are the top prime-time shows from five typical years: 1953, 1959, 1966, 1972, and 1975. From 1953 through 1966, not a single program in this list could have been regarded at the time as politically or socially "relevant." But by 1972, five of the top 10 could have conceivably been so regarded—and their themes were always "establishment-liberal" or "establishment-swinger."

It is in these programs and this period that I find some explanation for the growing social, sexual, and to some degree racial "lib-

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Leading Programs on Network Television (Selected Years)[1]

1953

1. *I Love Lucy*
2. *Dragnet*
3. *Arthur Godfrey's Talent Scouts*
4. *You Bet Your Life*
5. *The Bob Hope Show*
6. *The Milton Berle Show*
7. *Arthur Godfrey and Friends*
8. *The Ford Show*
9. *The Jackie Gleason Show*
10. *Fireside Theatre*

1959

1. *Gunsmoke*
2. *Wagon Train*
3. *Have Gun Will Travel*
4. *The Danny Thomas Show*
5. *The Red Skelton Show*
6. *Father Knows Best*
7. *77 Sunset Strip*
8. *The Price Is Right*
9. *Wanted: Dead or Alive*
10. *Perry Mason*

1966

1. *Bonanza*
2. *The Red Skelton Hour*
3. *The Andy Griffith Show*
4. *The Lucy Show*
5. *The Jackie Gleason Show*
6. *Green Acres*
7. *Daktari*
8. *Bewitched*
9. *The Beverly Hillbillies*
10. *Gomer Pyle, USMC*

1972

1. *All in the Family*
2. *Sanford & Son*
3. *Hawaii Five-O*
4. *Maude*
5. *Bridget Loves Bernie*
6. *The NBC Sunday Night Mystery Movie*
7. *The Mary Tyler Moore Show*
8. *Gunsmoke*
9. *The Wonderful World of Disney*
10. *Ironside*

1975

1. *All in the Family*
2. *Laverne and Shirley*
3. *Rich Man, Poor Man*
4. *Maude*
5. *The Bionic Woman*
6. *Phyllis*
7. *The Six Million Dollar Man*
8. *Sanford & Son*
9. *Rhoda*
10. *Happy Days*

[1] Source: A. C. Nielsen Company.

eralism" of the last five or six years—liberalism regarding premarital sexual relations, divorce, feminism, and interracial personal relations. This trend *needs* explanation, since during this same period, public-opinion polls consistently showed a slow but significant increase in the percentage of Americans regarding themselves as political conservatives. So I return to my original thesis here—that political conservatism was in part a consequence of the television news system, and that social liberalism was a consequence of the "new" prime-time entertainment programming.

But how does one explain the striking paradox that the liberal television journalists were producing "backlash," while at the same time the handmaidens of Madison Avenue were producing "openness" and "relevance"? The answer lies in some fundamental dif-

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ferences between network journalism and entertainment television. The liberal themes in entertainment television are indirect—although they are not subliminal, they are not the essence of the content. These messages embody some of the finest techniques of commercial advertising: They are present without being real or upsetting. And since the themes come across through fictitious characters and situations, they do not assault viewers, but rather live "with" them.

Moreover, entertainment television—especially in these serial presentations—has developed a kind of credibility for its characters and heroes that even Walter Cronkite could envy. After establishing what amounts to a direct and personal relationship with Mary Richards or even Sonny Bono, television can use these characters as models for behavior or thought. This is not exactly credibility—it is something like *personability*, and it causes the viewers to accept the themes that are connected with the characters.

Television news has none of this. The messages are in the action, not in the personalities. The action is "real"—sordidly so. And the journalists do not offer us—as the stars of entertainment television do—a model for behavior, or any tangible theory of politics or society. Indeed, what does Walter Cronkite really think? Television journalists should be pleased, in fact, to hear that their alleged "nonpartisanism" can be, and is, observed—even though the consequences of nonpartisan news seem not to be altogether nonpartisan.

Despite the liberal values of the people who produce the news, the effect of television news has been pretty much in the opposite direction of entertainment television—and pretty much in the opposite direction of the secret hopes of the news people themselves. By 1972, the images on network news were pushing us toward a desire for authoritative, centralized political control, while the images on prime-time entertainment shows were pushing us toward social hedonism and libertarianism. This tension, though still unresolved, represents a revolutionary change from the 1950's.

Television after Watergate

It may well be that many of the effects of television during the 10 years after the Kennedy assassination were unique to the decade. Since 1972, television has apparently not been the powerful factor in American politics it had previously been. I think that "video-malaise" is by now a partially obsolete concept, and that, ironically, despite what the networks have claimed, the coverage of Watergate

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and of the Ervin and Rodino committee hearings on television probably signaled the *end* of the era of videopolitics—not its beginning or its continuance.

There are three factors in the explanation for the decline in videopolitics and "videomalaise." First, events count. Regardless of the medium, what is happening, if reported, is part of the message. It would seem that the transgressions of the Nixon White House were serious enough that without regard to the type of news system in operation in 1973, the effects of the scandals on the political ethos would have been about as they were—devastating. My own research corroborates the findings of virtually all the survey research done during this time: Those who followed the Watergate revelations on television were no different from the reading population in their reactions to the scandals—a significant change from the patterns of opinions established during the 1960's.[5] By being the event that it was, Watergate overcame media differences.

The second factor is the change from videopolitics to what might better be called mediapolitics. The effects of television journalism were so broad-based that they in turn altered the other news media. Everything became so much like television, and the effects of television were so pervasive, that significant distinctions could no longer be found between television viewers and newspaper readers. Quite remarkably, the statistical correlation between television dependency and political estrangement—which reached its peak in 1968—began to disappear by 1972. It is too early to tell, but my suspicion is that the data from the 1976 election studies will indicate almost no remaining correlation.

Keep in mind, however, that by 1972 only the *correlation* had declined—the absolute *level* of dissatisfaction stayed as it had been, or increased. One might argue that by the 1970's the television news system had so overwhelmed both the print media and the general public that the rest of the society "caught up" with the inadvertent audience in its sense of alienation. In part, however, all this may be as much a methodological problem for social science as a meaningful political development—a problem that can be illuminated by a homely analogy.

Imagine that three decades ago a disease-bearing animal had come to the community and without being detected spread contagion for several years. Eventually, if nobody had closely observed the primary carrier, the proliferation of secondary and tertiary

[5] See my article, "The Impact of the Televised Watergate Hearings," *Journal of Communication* (Spring 1974), pp. 17-30.

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carriers of the disease would have made it nearly impossible to demonstrate that the presence of the original carrier was a strong predictor of the incidence of the disease. For the disease and all the various carriers would simply be everywhere. Correlational analysis would not tell us much about the causal factors in this instance, and by 1972 correlational analysis could not tell us much about videopolitics or "videomalaise."

Nonetheless, there is another explanation for what I believe to be the end of videopolitics and/or "videomalaise": that since 1972, the two realms of television—news and entertainment—have been finding new themes and achieving a new equilibrium, and have therefore been producing a new kind of political effect.

"Neo-conservatism" as a video byproduct

In 1968-1969, according to Edward Jay Epstein, executives at NBC and ABC made a decision that Vietnam news would henceforth take on a new focus and a new theme—that the war was winding down. Epstein suggested that this was less a partisan ploy than the general propensity in network news to offer thematic coverage, and to find from time to time new themes that fit the facts of the case, or serve the needs of the viewers, or both. By 1972 the emphasis of network news—again with events serving as a guide—began to change once again, this time from an intense focus on *social disintegration,* which had produced during the 1960's a backlash-conservatism among the inadvertent audience, to a more subtle concern for *governmental incapacity,* which I believe has tended to produce a bit of political "neo-conservatism" in us all.

It may well be only coincidence that Jimmy Carter based his campaign on solving government inefficiency and ending bureaucratic waste. But I think not. I believe that by 1972 the new themes of network journalism had once again set in motion a shift toward conservatism—but not backlash conservatism so much as neo-conservatism. This new trend, unlike the video backlash of the 1960's, is as evident among the higher social strata as the lower, and is considerably less "reactive." And once again, this development tends to run counter to the political inclinations of the news staffs and producers, although not quite so starkly as in the case of "videomalaise."

"Bad government" is a time-honored theme in what one might call journalistic populism—the political philosophy of the press corps that distrusts all political authority unless it is used to redistribute

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wealth. But this now popular focus of network journalism on insensible or corrupt government stems as much from the need for changing themes as anything else. For while it is obvious that the end of the social-disintegration theme fits the facts of the case—there was indeed less rioting, looting, and sniping by 1972—it cannot be easily demonstrated that government is less competent, compassionate, or decent now than it was in 1956. The networks may not have told us directly that government and authority are bad, or dumb, or getting worse—but they have certainly "shown" us. And we have watched fairly closely, all of us. The recent growth in political "conservatism," self-defined, may be as much a media phenomenon as the growth of Wallacism. If George Wallace was the unintended beneficiary of television journalism then, the *Wall Street Journal* and *The Public Interest* may be the unintended beneficiaries now.

One recent development in prime-time entertainment television has had the unusual effect of reinforcing rather than countering the news-induced tendency toward political "neo-conservatism." This development is the obvious and marked increase in police-action programming during the last four years. In 1975, eight of the top 20 programs were crime-detective serials of one form or another. (By 1976, the number had slipped to five.)

Although they vary widely in quality from *Kojak* down through *Charlie's Angels,* the themes of these programs are mostly the same: Heinous, unregenerate, professional criminals are apprehended and incarcerated through the guile or zeal of one or more iconoclastic, anti-heroic—but basically good—cops or detectives. Such themes, one would surmise, tend to sharpen public concern about crime, and public support for strong-armed law-enforcement officials. Quite remarkably, this theory has recently been supported by scientific evidence. George Gerbner, at the Annenberg School of Communication, who has monitored the trend toward tough-cop heroes on prime-time television, has demonstrated that heavy consumption of prime-time television produces attitudes about society that fall somewhere between "backlash" and "neo-conservative." His data show that heavy viewers, more than light viewers, tend to exaggerate the incidence of criminal behavior in the United States, and to overestimate the likelihood of being victimized by crime. Gerbner suggests that recent prime-time television programming tends to make society look worse than it is and, as a consequence, engenders support for vesting greater power in the state—a tendency that "fits" with the kinds of effects news programming may have fostered

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during the 1960's. On balance, then, since the early 1970's prime-time television has probably been producing more support for Kojak than for Archie Bunker.

This tendency toward political conservatism, however, is still being countered somewhat by the continued predilection for "liberal" comedy (not to mention the social and racial liberalism of today's television cops, like Kojak). Despite the inroads made by ABC with its nostalgic programming (*Happy Days, Laverne and Shirley*), Lear and MTM continue to stay at or near the top in public approval, and there has been no real abatement in the general evolution of network television toward "social openness" and unfettered personal expression.

If there is a pattern since 1972, it would seem to be that television continues to pull us in opposite directions. Prime-time entertainment programming still seems to be edging society toward social and personal "liberation," even if the police-action shows have created a public opinion in favor of broader state authority to deal with specifically criminal behavior. And as has been the case since 1963, television journalism seems still to be producing a conservative reaction to itself, a "modern" conservatism focusing more on the inadequacies of the state than anything else. The new equilibrium achieved by network television since 1972 would help explain three recent political phenomena: the growth in political conservatism; the concommitant growth in social, racial, and personal liberalism; and the unanticipated but very real appeal of Jimmy Carter, a unique if enigmatic blend of the two tendencies.

* * *

Against the backdrop of the widespread fears and hopes of the 1950's and 1960's, national television has had more varied and more subtle effects on the political process than many had originally predicted, and some still believe. Television ad campaigns have never had the direct mesmerizing effect on voters that people once assumed; network news has not very often made or broken public opinion overnight; entertainment television has not really served to anesthetize or conventionalize the national electorate. Given the original expectations and the actual developments, perhaps the best single word to describe these effects would be "ironic."

Television journalism has helped to make us more aware of domestic politics, to activate our latent sense of ideology, and to make us more sensitive to what the national government has been doing for the last 20 years—in that, it has ironically exerted a conservative influence. Entertainment television has helped give us in-

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sights into the traditional social values we have maintained longer than most other Western societies—in that, it has exerted a liberal influence.

If there is a common denominator between the effects of television journalism and entertainment television, it is perhaps that television in general has been *de-romanticizing* both government and social institutions for a long time. Television obviously does not offer reality, but it now moves more and more away from romanticism in news and entertainment. Interestingly enough, de-romanticizing government gets billed as conservatism; de-romanticizing society gets labeled as liberalism. But what is crucial is the tendency to denigrate, overtly in news or covertly in drama, the notion that either government or our common American social institutions are virginal. The final irony may be that television, on balance, has been "bipartisan" in its de-romanticizing. A little left socially and a little right politically puts us somewhere near the place we started.

In keeping with this theme of balance, one might conclude that television has not overwhelmingly proved to be either a public benefit or a public nuisance. At various times it has clearly been both. Free television, like the free press, remains a case study for cost-benefit analysis. It may be that we got a better deal from free press than from free television—but I'm not even sure of that. After all, television has not done badly as an institution, as far as its popularity, imaginativeness, success, or durability are concerned; at times, it has enriched our lives and made us more aware of and concerned about our politics and our government. But television is television—and television news is essentially television, too. Perhaps the one conclusion that should be drawn is that in a free society, *the medium providing the major source of both news and entertainment must fundamentally influence the public, the government, and the relationship between them.* It would be hard to argue that television has not profoundly altered our politics in the last two decades. It would be ludicrous to think that television will not be a major factor in the next two decades as well, as it moves itself and us from theme to theme.

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The high cost of hospitals— and what to do about it

MARTIN FELDSTEIN

THE explosion of hospital costs is now the central problem of our national health-care policy. Congress and the Administration are actively considering plans to impose direct controls on the costs of more than 7,000 individual hospitals. More generally, now that Medicare and Medicaid provide benefits for the aged and the poor, it is the rapid increase of hospital costs that provides the primary impetus for national health insurance. Unfortunately, the current policy initiatives generally reflect a misunderstanding of why hospital costs have risen so rapidly and of how hospital-cost inflation is very different than the other types of inflation that trouble our economy.

The magnitude of the increase in hospital costs has been overwhelmingly greater than the general rise in prices. From 1950 to 1976, the overall consumer price index (which measures the cost of all goods and services bought by consumers) rose about 125 per cent. During the same period, medical-care costs as a whole rose nearly twice as much, 240 per cent. But the upsurge in the cost of hospital care was much more dramatic. Average cost per patient-day was only $16 in 1950. By 1976, it was about $175, an increase of more than 1,000 per cent.

While everyone is aware that hospital costs have risen rapidly, there is little understanding of why this has happened at such an

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unprecedented rate. Much has been written about the rise in hospital wage-rates and the supposedly low rate of increase in productivity among hospital staff. But such "explanations" miss the real nature of the problem. For there are two—and really only two—key ingredients to understanding the rise in hospital costs: *the changing nature of the hospital product,* and *the impact of insurance.* Of these, the second is the more crucial—and largely explains the first.

The changing hospital product

The most obvious thing about hospital care today is that it is very different from what it was 25 years ago. Today's care is more complex, more sophisticated, and, it is to be hoped, more effective.

The rapid rise in hospital costs unquestionably reflects this rapidly changing product. The rate of hospital-cost inflation, therefore, cannot be compared without qualification to the rate of inflation of most other goods in the consumer price index. The consumer price index tries to measure the cost of buying an *unchanged* bundle of goods and services. But the meaning of cost inflation in hospital care is not that consumers are paying much more for the same old product, but that they are buying a different and much more expensive product today. Hospital-cost inflation is therefore quite different from the other types of inflation in our economy. To understand the nature of this problem, we must ask why hospital care has become much more sophisticated—and therefore much more expensive.

Higher incomes and greater education have undoubtedly played some role in increasing the demand for sophisticated hospital care, and scientific discoveries have obviously changed the technological possibilities in hospitals. *But the major reason, I believe, for hospital-cost inflation has been the very rapid growth in insurance.*

In addition to providing protection against unforeseen medical expenses, health insurance substantially lowers the net price of care that the patient pays out-of-pocket at the time he consumes services. There is now substantial evidence that patients, guided by their doctors, demand more services and more expensive services when a large part of the cost is offset by insurance.

Some simple but striking numbers will illustrate this point. In 1950, when average cost per patient-day was a little less than $16, private insurance and government programs paid 49 per cent of hospital bills. This meant that, on the average, the net cost to a patient of a day of care was just under $8. By 1975, average cost per patient-day had jumped to about $152—but private and public insur-

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ance were paying 88 per cent of the hospital bill, leaving a net cost to the patient of only $18. Thus, although the cost of providing a day of hospital care had increased more than ninefold (from $16 to $152), the *net* cost to patients had only just about doubled (from $8 to $18). Moreover, the general increase in the prices of all goods and services meant that $18 in 1975 could only buy as much as $8 in 1950! So in *real* terms, the net cost to the patient at the time of illness has not changed at all during the past 25 years.

Even if we disregard Medicare, Medicaid, and other government programs, the picture is not very different. In 1950, private insurance paid 37 per cent of private hospital bills. That meant that, on average, the net cost to a private patient for a day of hospital care was just under $10. By 1975, private insurance was paying for 79 per cent of privately financed hospital care. The average net cost to the patient at the time of illness, therefore, was only $32 per day—not the $152 incurred by the hospital. In the prices of 1950, this $32 is equivalent to $14. In *real* terms, the net cost per day to the patient had only increased by $4.

Looked at somewhat differently, with 79 per cent of private hospital bills now paid by insurance, an extra $10 of expensive care costs the patient only $2 out-of-pocket. It is not surprising, therefore, that patients and their doctors continue to encourage the growing sophistication (and expense) of hospital care.

I think this is the essence of the hospital-cost inflation problem: *Increased insurance has induced hospitals to improve their product and provide much more expensive and sophisticated care.*

The usual explanations

Before considering the implications of this explanation, let me contrast it with the usual reasons offered for the rise in hospital costs. These traditionally boil down to four ideas: 1) Hospitals are inefficient; 2) labor costs have risen particularly rapidly; 3) hospitals have had a low rise in technical progress; and 4) hospital supply has not kept up with increasing demand. Each of these notions is basically incorrect.

Perhaps the most frequently heard explanation of rising hospital costs is that hospitals are technologically and managerially inefficient. But even if there are good reasons for criticizing the efficiency of hospitals, there is absolutely no reason to believe their inefficiency has been rapidly increasing over the past two decades. Inefficiency cannot possibly account for a 1,000-per-cent increase in hos-

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pital costs! It cannot begin to account for a significant fraction of that overwhelming increase.

Rising labor costs are also frequently cited as the primary cause of hospital-cost inflation. It is true that wages and salaries constitute a large share of hospital costs, and that hospital wages have risen more rapidly than wages in the general economy. Nevertheless, this does not begin to account for the rise in hospital costs. From 1955 to 1975, labor-cost per patient-day rose at a rate of nine per cent a year. But *as a fraction of the total hospital bill, labor costs actually decreased from 62 per cent in 1955 to 53 per cent in 1975.* In other words, non-labor costs rose faster than labor costs. Moreover, about one third of the increase in labor costs was due to a rise in the number of personnel per patient-day rather than an increase in hospital wage rates. I recently calculated that the earnings of hospital employees rose at 6.3 per cent a year from 1955 to 1975, while the average earnings of all private non-farm workers rose at 4.5 per cent. If the rate of increase of hospital wages had been held to this 4.5-per-cent national average, the overall rise in the average cost of a day of hospital care would have been reduced from 9.9 per cent a year to 8.8 per cent. In other words, *the rise of hospital wages in excess of the national average rate of wage increase can only account for about one tenth of the high rate of hospital-cost inflation.*

The third common explanation is that hospital-cost inflation is the result of a low rate of technical progress. I think this is clearly and obviously false. Hospitals have been the scene of extremely rapid technical changes. But these changes differ from those in other industries: They have not been cost-reducing. Technological progress in hospitals does not involve making the old product more cheaply, but making a new range of products that are more expensive.

Why have hospitals moved toward increasingly expensive ways of doing more things for patients, rather than toward providing old services more cheaply? Although some of this merely reflects the path of scientific progress, I believe it can be shown that it is our method of financing health services that primarily determines the pattern of technological change itself. Hospitals would not be buying the latest, expensive medical technology if they could not afford it. What permits them to afford it is our mode of insuring against hospital costs.

The final traditional explanation is that hospital costs have risen because supply has not kept up with demand. Usually, economic analysis of ordinary markets emphasizes that prices rise because supply does not increase as rapidly as demand. But in the case of

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hospitals, I think the opposite is true. *It is precisely because supply has kept pace with demand that hospital costs have gone up.* Hospitals have responded to the increased demand and increased willingness to pay for sophisticated services by providing them, and costs have gone up accordingly. The increase in demand has induced a rapid rise in the supply of a *more expensive* type of hospital care.

This brings me back to my original contention that the rise in hospital costs reflects a change in the product, largely induced by the growth of insurance. But this explanation of the rise in hospital costs raises an awkward question. Implicit in every discussion of hospital-cost inflation is the assumption that the rise in cost has been excessive and should not be allowed to continue at the same rate in the future. But if this rise reflects a change in product rather than an increase in inefficiency or a low rate of technological progress, why is it really a problem?

The answer in brief is that the current type of costly medical care does not really correspond to what consumers or their physicians would regard as appropriate if their choices were not distorted by insurance. The effect of prepaying health care through insurance, both private and public, is to encourage hospitals to provide a more expensive product than the consumers actually wish to pay for. And in the end, we do pay for it—in ever higher insurance premiums.

Although the consumer eventually pays the full cost of the expensive care through higher insurance premiums, *at the time of illness* the choice of the patient and his physician reflects the *net* out-of-pocket cost of the care. Because this net out-of-pocket cost appears so modest, the patient and physician choose to buy more expensive care than they would if the patient were not so well insured. In this way, our current method of financing hospital care denies patients and their physicians the opportunity to choose effectively between higher-cost and lower-cost hospital care.

Why patients overinsure

If insurance is responsible for such an inappropriate expansion in the demand for expensive care, why has insurance grown so rapidly? In part, this growth reflects a family's rational demand for protection against unexpected illness. It is unfortunate but inevitable that this process tends to be self-perpetuating. *The high cost of care induces families to buy more complete insurance, and the growth of insurance induces the hospital to produce more expensive care.*

But this demand for protection cannot explain the comprehensive

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"first-dollar insurance"—i.e., insurance for all costs up to a specified limit—that now exists. Current insurance is often inadequate in protecting the family against the substantial bills that can cause real hardship. Why have Americans bought such complete coverage for relatively small bills? Why have they been willing to pay for insurance that provides little real protection against catastrophic illness but induces them to buy more expensive and sophisticated care for less serious illnesses?

Most insurance is now group insurance and, more specifically, insurance bought for employee groups. Decisions on the scope of coverage and on co-insurance rates and deductibles are generally made in collective bargaining by expert representatives of labor and management. Why would such experts forego higher wages in order to obtain excessive, shallow insurance? *The answer, I believe, lies in the tax treatment of premiums.*

Government policies encourage insurance by a tax deduction and exclusion that now cost the Treasury more than $6 billion a year. Individuals can deduct about half of the premiums they pay for health insurance. More important, employer payments for insurance are excluded from the taxable income of the employee as well as the employer. These premiums are also not subject to social-security taxes or state income taxes.

Thus, even for a relatively low-income family, the inducement to buy insurance can be quite substantial. Because of the income and payroll taxes, a married man who has two children and earns $8,000 a year will take home an additional $70 for each $100 the employer adds to his income. If the employer buys health insurance instead, the full $100 can be applied against the premium and there is no tax to be paid. In this case, the dollar buys nearly 50 per cent more in health-care services if paid through an insurance premium than if paid in wages to individuals who then buy the care directly. For workers in high tax brackets, the incentive is stronger.

I believe the subsidy is strong enough to induce employees and unions to choose higher insurance instead of higher wages. The primary effect of this insurance is to distort the pattern of medical care and to exacerbate the rising cost of hospital care. Moreover, this subsidy, which costs taxpayers several billion dollars a year, is quite regressive: The subsidy is greatest for middle- and upper-income employees in high-wage industries. In short, the current tax treatment of insurance premiums, particularly the exclusion of employer payments from the employees' taxable incomes, is a costly, regressive, and inefficient aspect of our tax system.

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An important step in dealing with high hospital costs must be to change this aspect of our tax system, which now contributes significantly to the underlying problem of excess insurance. More generally, we must restructure the system of health insurance to correct the incentives faced by patients and their doctors. Other proposed "solutions" will only take us down a wrong road.

Direct regulation of hospital costs

One such proposed "solution" is the direct regulation of hospital costs. At first glance it seems natural to apply the mechanism of public-utility regulation to hospitals. However, a more detailed examination of this proposal shows that controlling hospital costs differs fundamentally from public-utility regulation. And more important, the direct regulation of hospital costs would in the long run make the nature and quality of hospital services completely unresponsive to the preferences of patients and their physicians.

Consider the experience of hospital-cost regulation under the Economic Stabilization Program of 1971-1974. A special subcommittee of the Cost of Living Council continued to regulate hospital costs during the entire period of price controls. At first, controls were limited to hospital wages and to the prices charged for specific types of hospital service (e.g., an x-ray, a particular laboratory test, etc.). The controls were constantly being confounded by rapid increases in the quality or sophistication of services, which called for new (and higher) costs. During the final phase of the Economic Stabilization Program, the regulation of hospital costs was changed to a comprehensive limit on the overall increase in the cost per patient-day (with minor adjustments for changes in occupancy rates, etc.). The American Hospital Association then filed suit against the Cost of Living Council, charging that such control of the quality of hospital care went beyond the legislative mandate of the stabilization program. The issue became moot when the legislation expired in 1974.

The experience of the Economic Stabilization Program confirmed that the central issue in controlling hospital costs is limiting the quality of hospital care. The problem thus differs fundamentally from the usual issues of public-utility regulation. Such regulation is used to control the exercise of monopoly power, to set a fair rate of profit on invested capital, and to assure that *minimum* quality standards are maintained. In contrast to the typical public utility, most hospitals—being nonprofit institutions—earn no profits, and minimum

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standards are already regulated through annual accreditation by a professional association.

Direct regulation of hospital costs is inappropriate because there is no "technically correct" way for the regulators to set an appropriate *maximum* quality of hospital care. Determining the appropriate quality of care is totally different in this respect than fixing the appropriate rate of profit for a public utility. Controlling the quality of medical care is not a technical economic or legal question that can be solved by bureaucrats, by the political process, or by an administrative tribunal. Nor can it be assigned to the process of physician peer review: Although peer review can try to ensure the application of accepted standards of care, it cannot properly establish what those standards *should* be in each particular case. Here again we run up against the difference between setting a minimum standard and imposing a maximum standard on the quality of care. Neither patients nor doctors are likely to accept calmly any such bureaucratic imposition.

Deciding on the correct quality and style of medical care requires involving the individual family and its own physician in the decision of how much they want to spend for medical care and how much for other things. Although direct involvement of households is not possible in determining the appropriate level of spending on such things as public safety or national defense, it *is* possible for personal health services. Moreover, it is essential. The only limits on health care we can expect a patient to tolerate are those he sets for himself. Trying to impose them by administrative fiat will lead to particular scandals and general dissatisfaction.

Although imposing an arbitrary limit on the increase in hospital costs might be beneficial for a few years, in the long run it would make the quality of hospital care completely unresponsive to the preferences of the patients. How would a regulatory agency decide whether real hospital costs should rise at an annual rate of four per cent, or six per cent, or eight per cent? After adjusting for the increase in wages and in the prices of things that hospitals buy, should costs and therefore quality be allowed to increase at a rate of two per cent, or four per cent, or six per cent? An arbitrary choice would eventually mean that the quality of hospital care will be very different from the level that patients and their physicians would choose.

And what would regulation do about differences among hospitals in the cost and quality of care? Would current differences be "frozen in" by limiting all hospitals to the same rate of cost increase? On what basis would a hospital be granted permission to add new ser-

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vices that increase its quality? Or would regulation seek to make all hospitals have the same levels of quality and cost except for differences in the diagnostic mix of patients?

These questions show two adverse effects of direct regulation. First, to the extent that current differences are maintained by limiting all hospitals to approximately the same rate of cost increase, direct regulation would be unfair to those who now live in the areas served by lower-quality hospitals and who would prefer a more rapid increase in quality during the years ahead. And to the extent that all hospitals are required to have the same level of quality, direct regulation would force many lower- and middle-income families to pay for a more expensive style of care than they want, while denying many other middle- and upper-income families the opportunity to purchase the higher-quality care that they would prefer. In short, direct regulation of hospital costs is not compatible with allowing a variety of institutions to develop in response to differences in patients' preferences. Moreover, it is disturbing that the government is considering regulation of hospital costs at the very time that the public and the Congress have become sharply critical of the adverse effects of regulation in a number of other industries.

The lesson for NHI

The nature of hospital-cost inflation and the weaknesses of direct regulation have important implications for national health insurance. Whatever form of insurance is developed must face squarely the problem of how the evolution of the quality and style of medical care will be determined.

It is crucial to recognize that the long-run problem is not to *reduce* or to *limit* the growth of medical spending but to achieve the *correct rate of growth* of that spending. This must ultimately come down to balancing additional spending on medical care against the alternative uses to which households might put their resources. And this requires comparing the expected gains from additional medical care—gains that are psychological as well as physical—with the satisfaction that households would enjoy from the alternative spending on food, housing, education, or recreation.

It is important that we develop an approach to national health insurance that is appropriate to the advanced technology of today's medical care and the ever-increasing affluence of the American people. Too much of the current debate relies on ideas about the delivery of medical care that have been inherited from a period with

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quite different technological and economic conditions. The challenge today is to find new methods of financing health care that protect families from financial hardship, while also making future health care more responsive to the preferences of the people.

Several years ago, I outlined an approach to national health insurance[1] that I still believe can serve these two objectives. The basic idea in this proposal is extremely simple: Provide every family with an insurance policy so that a family's spending on health care need never be more than a moderate fraction of its income—*but* use a system of co-payments to make most families conscious of the cost of their use of health-care services. In the next few pages I will summarize the form of such a national health insurance plan. But it will help to focus and clarify the discussion if I indicate at the outset the six objectives by which we should judge any proposed system of financing health care:

1. *It should prevent deprivation of care.* No one should go without medical care because of inability to pay.

2. *It should prevent financial hardship.* No family should suffer substantial financial hardship because of the expense of unforeseen illness or accident.

3. *It should keep costs down.* A financing system should both encourage efficient use of resources and discourage medical-care price inflation. Whenever possible, patients should use relatively low-cost ambulatory facilities rather than high-cost in-hospital care. Hospitals should be induced to moderate the forces that raise the cost of care: increased personnel, unnecessary pay raises, and a proliferation of technical facilities and services. Physicians should not be encouraged to increase their fees by the knowledge that, because of insurance, the cost to their own patients will rise little, if at all. In short, the financing method should encourage cost-consciousness in the decisions of patients, doctors, and hospital administrators.

4. *It should avoid a large tax increase.* A national health insurance program that raises substantial funds from taxpayers and returns it in the form of health insurance has a large hidden cost. By reducing the incentive to work, to invest, and to take economic risks, the increased tax rates would lower real national income. The magnitude of our total spending on health care makes this an important consideration. In fiscal year 1976, private health-care expenditures approached $78 billion; transferring this private spending to the public sector would require a very large increase in tax rates.

[1] "A New Approach to National Health Insurance," *The Public Interest,* No. 23 (Spring 1971).

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5. *It should be easily administered.* The administration of a health-care system should not require complex procedures that are costly and inconvenient, or permit arbitrary decisions that will be resented.

6. *It should be generally acceptable.* Any new method of financing should be acceptable to physicians and hospitals, as well as the general public. A system that is disliked by any of these would encounter substantial political opposition and, if instituted, would be hampered by a lack of cooperation.

Before looking at the possible alternatives, let us examine the existing system. Although almost every American is now covered by some form of private or public insurance, the current coverage is still often surprisingly "shallow." That is, families incurring huge medical bills too often find that their insurance pays only a relatively small portion of them. A 1970 National Opinion Research Survey, updated to 1976 prices, found that more than 500,000 families had *out-of-pocket* expenditures of more than $3,000 for medical care. More than two million families spent over $1,500, and more than 10 per cent of all families spent over $1,200 out-of-pocket. Let me repeat: These expenses are out-of-pocket, i.e., *after* private and public insurance payments and reimbursements.

Although hospital insurance pays a high proportion of hospital bills, current policies generally impose a variety of ceilings on the use of benefits. The absence of "deep" coverage leaves a serious residue of financial hardship and also prevents some people from seeking potentially expensive care. We have already seen how the current system of financing medical care has contributed to the rapidly rising cost of care. In short, the current structure of health insurance fails by each of the first three criteria that I have suggested.

Uniform comprehensive health insurance

The most widely debated proposals for national health insurance call for a program of universal, uniform, and comprehensive health insurance, something like an extension of Medicare to the entire population. The most comprehensive of these proposals, such as the Kennedy-Corman bill, would even abolish the small deductible and co-insurance provisions of Medicare, eliminate any limit on the length of covered hospitalization, and extend coverage to drugs, dental care, and even housekeeping services.

There is no doubt that under comprehensive insurance no one would be deprived of needed care because of inability to pay, or would suffer any financial hardship because of unforeseen illness. In

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terms of our other criteria, however, such plans must be judged unacceptable.

Although comprehensive insurance would remove the current incentive for patients to use in-patient rather than ambulatory care, it would not introduce any positive incentives for the efficient use of resources. Whatever cost consciousness still existing today among patients, doctors, and administrators would be removed. There would be no incentive to limit the rising cost of hospital care, to use paramedical personnel more widely, or to produce physicians' services more efficiently. With all bills paid by the government, nothing would limit the rise in hospital wage rates and physicians' income. In such a situation, the government would be forced to introduce direct controls in an attempt to contain costs.

Such detailed controls, fee schedules, and limits on hospital charges might prevent rising costs for a while, but the experience of Canada, Britain, and Sweden suggests that health costs rise very rapidly even under government health programs with extensive direct controls. Such controls could not achieve, and might actually work against, an efficient use of health resources. They would certainly require a large number of arbitrary policy decisions and engender the hostility of the basic providers. Such arbitrary decisions pose more serious questions than may be generally recognized. What is a "reasonable" level of daily hospital cost? At what rate should hospitals improve facilities, add staff, or raise the level of amenities? How many beds should there be per thousand population? How much should different medical specialists earn? These are not technical questions that could be answered "objectively" if only enough research were done—they involve tastes and value judgments about the relative desirability of different goods and services.

Finally, even if expenditures were not to rise, the provision of comprehensive insurance would require a substantial tax increase: over $44 billion to replace current private expenditures on physician and hospital services, and an additional $34 billion if drugs and other personal health care were to be included.

If such a $78 billion increase in government spending were financed by increasing the tax rate of the current social-security payroll tax, the rate would rise from its current level of 12 per cent to more than 20 per cent. If, instead, the $78 billion were financed by a general increase in the personal income tax, everyone's tax would have to rise by more than 50 per cent of its current level.

Comprehensive insurance would shift the problem of the health-care sector to a conflict between cost inflation and controls. No mat-

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ter where the balance between these was struck, there would be no natural incentive to efficiency, and there would be a large government expenditure to be paid for by much higher taxes.

The major-risk approach

I favor a different approach to national health insurance. My proposal is extremely simple: Every family would receive a comprehensive major-risk insurance (MRI) policy with an annual "direct-expense limit"—i.e., a limit on out-of-pocket payments—that increases with family income. A $500 direct-expense limit means that the family is responsible for up to $500 of out-of-pocket medical expenses per year but pays no more than $500—no matter how large the total annual medical bill. Different relations between family income and the direct-expense limit are possible. For example, the expense limit might start at $400 per year for a family with income below $4,000, be equal to 10 per cent of family income between $4,000 and $15,000, and be $1,500 for incomes above that level. The details of the schedule are unimportant at this point. The key feature is an expense limit that few families would normally exceed but that is low relative to family income.[2]

Major-risk insurance is the most important type of health insurance for the government to provide. It concentrates government effort on those families for whom medical expenses would create financial hardship or preclude adequate care. Because relatively few families have such large expenditures in any year, MRI need not be a very costly program. In terms of our six criteria, these are the advantages of MRI:

1. *It would prevent deprivation of care.* If the maximum annual expenditure on health were limited to 10 per cent or less of family income, no family would be deprived of care because of inability to pay. (If it is believed that certain types of preventive care and early diagnostic tests would not be undertaken as often as is desirable, the MRI policy could be supplemented by specific coverage for these services at relatively little additional cost.)

2. *It would prevent financial hardship.* MRI would also prevent financial hardship by limiting a family's financial risk to 10 per cent or less of annual income.

[2] The availability, in addition, of government-guaranteed loans for the post-payment of medical bills would allow families to spread expenditures below the expense limit over a period of a year or even more. I shall not discuss this "credit card" feature in more detail in order to concentrate on the principle of major-risk insurance.

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3. *It would reduce cost inflation.* An increase in insurance coverage generally exacerbates the inflation of hospital costs. However, the universal provision of MRI should reduce hospital-cost inflation by eliminating (or at least decreasing) the current use of shallow-coverage insurance. This would be particularly true if, in introducing national health insurance, the government eliminated the current tax subsidy for private health insurance. In any case, after MRI had removed the risk of major expense, families would then have little to gain from such insurance, for the cost of a policy would be high relative to the upper limit on expenses guaranteed by the MRI.

Of course, once a family had exceeded its direct-expense limit, MRI would be equivalent to comprehensive insurance, and the family would then have no incentive to limit its spending for medical care. To ensure that relatively few families do exceed their direct-expense limit, the MRI policy should make use of a co-insurance feature instead of a deductible. For example, the annual direct limit of $1,500 for families with incomes over $15,000 could be achieved by using a 50-per-cent co-insurance on the first $3,000 of medical bills. Fewer than one family in 15 had medical expenses of more than $3,000 in 1976 (including, of course, the expenses now paid by insurance). Therefore, fewer than one family in 15 would reach an expense limit that is based on $3,000 of spending. The co-insurance rates could be cut at lower income levels to keep the direct-expense limit to 10 per cent of income, e.g., a 33-per-cent co-insurance rate at an income of $10,000. At some income level it would probably be desirable to cut the $3,000 base so that the co-insurance rate did not have to fall too drastically. It is encouraging in this regard that fewer than one family in five had 1976 expenses exceeding $1,500; a 30-per-cent co-insurance rate would produce a direct-expense limit of $450.

More discussion of these details is clearly out of place here. What I want to emphasize is the general principle: The combination of a co-insurance rate and an expenditure base can be selected in a way that varies with income to make almost all families significantly sensitive to the costs of additional health spending, while still limiting each family's maximum out-of-pocket expenditure to 10 per cent of income or less.

Even for the small number of families who reach their limits, MRI would indirectly help to control expenditures. The basic cost per day in hospitals would not be determined by the willingness of those relatively few families to spend, but rather by the preferences of the far larger number of patients who would not be fully reimbursed.

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MRI could prevent excesses in physicians' fees and hospital durations of stay by requiring that the same care be given and the same fees be charged to these patients as to those who are paying for their care. Because most medical services would be financed with substantial direct payments, the standards of "customary charge" and "customary care" would become meaningful reference standards, as they currently are not. In short, MRI would introduce a cost-consciousness and a basis for cost comparison that could improve efficiency and contain medical-care inflation.

4. *It would avoid a large tax burden.* The cost to taxpayers of an MRI program would not be large relative to the benefits conferred. The exact amount would depend on the particular schedule of coinsurance and the overall impact of the program on utilization and unit costs. I would estimate that an MRI form of national health insurance that covered *all* personal health care would raise government spending by no more than $19 billion at 1976 levels. Limiting the scope of coverage or introducing a small deductible per spell of illness could reduce this cost more than proportionately.

5. *It would be administratively simple.* MRI would be relatively simple and inexpensive to administer. Because MRI would act to contain cost inflation and to increase efficiency, there would be no need for detailed controls or essentially arbitrary policy decisions. Planning efforts could be concentrated on those problems that cannot be solved by the natural forces of supply and demand.

6. *It would be generally acceptable.* An MRI scheme should be acceptable to physicians, hospitals, and the general public. It would have the virtue of providing full protection against serious financial hardship without the controls or fee schedules that would accompany other forms of insurance. The current freedom of physicians and hospitals would be preserved. If MRI were administered by the same insurance companies that currently provide health insurance, the net effect would be a small increase in their total premium.

In conclusion, I want to reiterate that the problem of health care costs is not to *reduce* or to *limit* the growth of medical spending, but to achieve the *correct* rate of growth of that spending. In turn, this means that the form of national health insurance that the nation adopts should ensure that individual consumers play the central role in guiding the growth and form of their health services. I believe that MRI is the right way to protect families from the risk of financial hardship, while preserving individual freedom of choice and thereby making the future development of our health-care system responsive to the preferences of the people.

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Controlling corporate misconduct

CHRISTOPHER D. STONE

THE control of corporate misconduct has become one of the most significant challenges the society faces. This should be apparent even to those who regard as extravagant some of the charges directed against corporations—that the energy crisis is simply a corporate contrivance, or that the corporations are run by evil people, indifferent to the poisoning of our environment. What has not been exaggerated is the increasing importance of corporations in our lives. More and more, it is they who invent, invest, produce, distribute, and farm. As a result, a large measure of wrongdoing is inevitably corporate.

Indeed, we would do well to understand the term "corporation" in its original and most comprehensive sense, as comprising not merely businesses but all the other large-scale organizations of a modern society. A mismanaged pension fund can sadden as many lives as a mismanaged assembly line. Genetic research at universities may pose as great a threat as the toxic by-products of the chemical industry. The investors who bought New York City municipal bonds, misled as to the City's true financial plight, are as put

This is the first of a series of articles on the future role of the large corporation in American society.

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out as any victim of stock fraud (but apparently lack any legal recourse).

This preeminence of corporations in social activity is a state of affairs that the law inherited, but unfortunately did not plan for. When much of the law and political theory was taking shape, there were indentifiable humans, operating independently of complex institutional frameworks, who did the things that it is the job of the law to prevent. The law responded with rules and concepts concerning what motivated people, and what was possible, just, and appropriate toward them. There were, of course, all manner of corporations—churches, municipalities, guilds, universities—during the years the law was forming. But the courts were rarely pressed to consider whether the rules they were developing might be inappropriate or ineffective to deal with this new breed of social actor. Some of the reasons were doctrinal: There were doubts whether a corporation, a *persona ficta,* could be liable for wrongful acts. Others were practical: The size and structure of the early corporations were so unprepossessing that when a wrong was done, it was usually not hard to locate a responsible individual—a "culprit"—and apply the sanctions of the law to him.

The industrial revolution gave corporations a prominence, size, and complexity that made further disregard impossible. But only in a few ways did the law account for the corporation as a special sort of actor demanding the attention of specially adapted laws. The exceptions were almost entirely in shareholder-management relations, where the problems that arose were unique to corporations and where there were thus no preexisting rules to accommodate each emerging situation: How many directors did a corporation need? On what grounds could dividends be compelled? To deal with such questions, the law, unfettered by precedent, often ventured directly inside the organization itself, laying down express requirements on the structure of management and the decision process. The directors could vest some of their power in a management committee, but certain decisions (the declaration of dividends, for example) could not be delegated; the corporate officers could make day-to-day decisions (such as how many units to produce), but major organic changes (the sale of assets, or a merger) had to be submitted to the shareholders for two-thirds approval.

But such meddlings with the corporations' internal governance were almost always designed to protect and define in advance the increasingly complex interests of the investor—not those of the corporation's customers, its neighbors, or its fellow citizens. Where the

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corporation was performing acts that, in theory, the ordinary person could perform—polluting the environment, producing harmful goods, committing crimes (in other words, where it was dealing with the "outside world" rather than with its shareholders)—there already existed a network of rules addressed to "persons." The most economical solution was simply to fit the corporation into this preexisting body of law. Nothing was required except to ignore, one by one, the earlier qualms about whether the corporation ("that invisible, intangible, and artificial being," according to Chief Justice Marshall) could be regarded as a person—a wrongdoer in its own right.

Applying existing law to corporations without distinction was the simplest but not necessarily the best course of action. Had the law considered the problem afresh, it might better have taken into account the special institutional features that render corporations, as a concern of the law, distinct from individuals. Instead, we found ourselves confronting corporations with two basic strategies that had evolved in dealing with ordinary people.

Counterorganizational measures

Since the corporation itself cannot be imprisoned, the primary counterorganizational measure is simply to confront it, as we do the man in the street, with a negative profit contingency (a civil judgment, a criminal fine), if it should wander outside the law—in other words, to threaten its pocketbook. The punishment must "fit the crime," so that a good bookkeeper would recognize that, when the likely gains are balanced against the likely losses, the organization will find the prohibited activity a "bad bargain."

The likelihood that this sort of threat will succeed obviously depends on a corporation's sensitivity to profits, the subject of a debate that has suffered some unfortunate exaggerations on both sides. For example, the supposition that corporations seek to maximize profits is not undermined merely because other goals seem to attract them as well—prestige, expansion, etc. As Alfred D. Chandler has observed, "these other goals also take money . . . profits provide it." The more precise question is whether the pursuit of profit is ever subordinated to the realization of other aims; I think the answer to this is: Yes—but not ordinarily, and not in large measure. Thus, at least as far as the profit-making organizations are concerned, it makes sense to use profit threats as the foundation of our corporate-control strategies. The government communicates to the firms—through law—the price tag for failing to meet society's

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standards, and then allows each company to make the necessary changes to avoid the penalty in whatever way it can most economically and fittingly devise. This doesn't work badly in the typical situations. Indeed, the law is often less successful in controlling the not-for-profit corporations, such as municipalities and hospitals, whose motives are less easy to identify and grasp.

The problem is that the law must deal with the aberrant as well as the average; thus I think we should be cautious before presuming that the modern business corporation presents nothing more complex than Economic Man writ large. To begin with, the individual actors at each level of corporate activity (shareholders, directors, middle management, workers) are subject to constraints that are often incongruent with the profit of "the corporation" as a whole. In fact, the absence of identity between the shareholders' interests and those of "the corporation" is the very idea behind two of the most basic notions of corporate and commercial activity: limited liability and bankruptcy. The shareholders of a tanker company, for example, are not indifferent if one of its ships runs aground. But if there is a wreck, the shareholders know that, except in rare cases, they cannot be sued as individuals by the injured parties to recover any damages the corporation cannot satisfy. What this means (assuming perfect economic rationality) is that in deciding such matters as routes and how much money to spend on hulls and safety devices (and, indeed, how much money to put into the company), the investors' calculations are skewed toward letting the company impose high risks on society. If no accident results, the shareholders will reap the profits of skimping on safety measures. If a ship runs aground, they will be shielded from full responsibility for the harm they have helped to cause.

Incongruities of this sort are no less troublesome when we turn to the giant "public" corporations that are effectively under the direction of hired managers rather than shareholders. Threats to the corporate treasury do not necessarily intimidate the top executives, whose tenure and salary almost inevitably survive lawsuits untouched; the burden falls on the shareholders. (In fact, an ironic twist of this reasoning has led some courts to treat corporate wrongdoers less severely than individuals, lest the "innocent shareholders" —or, in the case of municipalities, "innocent taxpayers"—suffer). And the vast majority of workers are even more insulated. The farther down the operational ladder, the more the "profit goal" of the total organization (so far as there is one) takes the form of targets and objectives for the shop, the department, and the plant; these

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"immediate" subgoals and objectives determine the horizons and interests of the employees. The potential for future corporate penalties—the possibility that the controller of the corporation someday might have to write a check in payment of a penalty (perhaps five or six years in the future, given the delays of litigation)—is at most a distant and abstract part of the subgroup's reality.

And to the extent that the individual managers or the organization as a whole are not "rational"—to the extent they do subordinate profit to prestige, or to the excitement of carrying out technology to its logical and dramatic limits—the money threats of the law are oblique, at best.

None of this means that the law's counterorganizational threats are fundamentally misplaced. My concern is rather that there can exist—even within business corporations and more commonly in other organizations—pockets of activity (in the boardroom, or in the plant) that are relatively impervious, for certain periods of time, to the law. However atypical and however limited these pockets may be, we should be concerned that they may exist often enough, and may be of significant enough magnitude, to warrant adopting alternative measures.

Counterpersonnel measures

The classic alternative—the second basic approach—has been for the law to hold employees individually liable through fines, damages, and even imprisonment. These counterpersonnel measures are undeniably a valuable supplement. But they are less effective than one might suppose, and in some ways may even do more harm than good.

I know this sounds odd, especially to followers of the business press, who are regularly forewarned of the increased vulnerability —if not the imminent imprisonment—of the managerial class. Still, the real risk of personal liability ought to be put in perspective. For willful, self-serving wrongdoing, such as stock swindling (which can be identified with a particular hand and mind), the threat of personal legal liability is certainly real. But for other kinds of corporate misbehavior—e.g., when the employee and his company are unleashing a toxic substance into the community, or allowing distribution of a faulty product—the law's bite is not half as bad as its bark.

Why should this be so? To begin with, when an employee injures others by acting on his own account (as, for example, in many self-

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benefiting securities violations), he will be the sole target of legal action. But in the more ordinary cases, where an employee is acting on his company's behalf, the corporation, as his principal, will be liable as well. The practical effect is that in most situations a plaintiff proceeds against the corporation, rather than troubling to identify and collect from a particular employee.

Moreover, even when someone—a diligent prosecutor, for example—tries to pursue some accountable flesh, it is not easy to do so. If there really was someone clearly responsible, the organizational underbrush may be too thick to find him. (Did the malfeasance occur during the morning shift, or at night?) More frustrating, the division of tasks may be so extensive that responsibility is impossible to assign, even using the term in its ordinary, moral sense; settling *legal* responsibility is all the more difficult, especially in criminal actions, since the law is reluctant to impose liability without proof of actual knowledge, and the burden of proof favors the defense.

These considerations make it particularly hard for the law to pressure top-level corporate managers, who wield the most power to keep the corporation steered within the law, but who can also claim with considerable justification that they "didn't know" what was going on in the bowels of their organizations, where so much of the trouble is brewing. It is also fairly common that in prosecuting corporate employees (particularly those at the top of their organizations) the law runs into a series of socially ordained hurdles; the prosecution finds itself trying to convict well-spoken, well-dressed, church-going, white community leaders—persons not likely to be judged harshly. Prison sentences are rare, reserved for the headline-grabbing crimes only.

Fines and civil judgments are invoked against corporate employees more liberally than imprisonment. But one should not assume that the individual executive really bears the final brunt. Under the corporation codes of the major states, when an employee suffers a judgment or fine for actions undertaken on behalf of the corporation, he can often get reimbursement (indemnification) from corporate funds; the arrow of whatever law he has broken is obligingly deflected to the corporation itself, and passed through it to the shareholders, and perhaps the consumers and creditors. In other cases, the director or officer may be protected by liability insurance, a coverage provided by perhaps 85 per cent of major American corporations. And even in cases of conduct so willful and unlawful that neither indemnification nor insurance is available, it is almost

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impossible to prevent a corporation from reimbursing its errant officer (or "good soldier") in other ways—by "bonuses," a delayed raise, or a sweet "consulting" contract.

Some general problems

There are additional difficulties rooted in the complexity of modern commerce and technology—the sort of society corporations make possible. The legal system evolved around, and responds to, a simpler set of difficulties than the most critical problems we now face.

Consider, for example, the law of negligence, which is at the heart of private legal "repair." A model negligence case is one in which Smith, who is walking across the street, is accidentally but negligently hit by Jones' carriage. Note that 1) Smith knows *that* he has been injured; 2) Smith knows *who* has caused the injury; 3) it is possible to assess fairly well the *nature and extent* of his injuries; and 4) the *technical inquiry* involved in analyzing what happened is not too complex—i.e., simple laws of physics are involved, within commonsense experience. (The model also assumes that if the legal damages can be lain at the feet of the responsible actor, he is likely to change his behavior in the future; as we have already seen, this assumption is problematic when a corporation is involved.)

But contrast this model case with the situations that are increasingly of concern in society today. The food we will eat tonight (grown, handled, packaged, and distributed by various corporations) may contain chemicals that are slowly killing us. But while we may have misgivings in principle, we cannot know with certainty *that* we are being injured by any particular product, or *who* might be injuring us. We would also have a difficult time proving the *nature and extent* of our injuries (even more so proving the extent attributable to any particular source). Finally, the evidence to be evaluated is far more complex and technical than in the model case—perhaps so much so that the courts or even agencies cannot realistically be expected to unravel it, especially after the fact. Worst of all, by the time we discover what is happening—for example, that teenage girls are developing vaginal cancer because of medication their mothers took before they were born—it is often too late.

Moreover, at some point the costs associated with the law's traditional approaches transcend the benefits. Some rules are clear enough, and command enough respect, that they are ordinarily self-enforced. But the less the sense that the law is right, the greater the costs of policing. Some of the costs are obvious: administering and staffing

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court systems and administrative agencies. There are costs of carefulness: Keeping harmful drugs off the market is a valuable goal, but the result may be a delay in getting valuable medicine to patients who need it. There is overkill: injunctions that shut down factories to obviate what would have been a lesser harm to the community. There are the costs of outright error: We command less flammability in children's sleepware, only to discover later that the "remedy"—a flame retardant—is carcinogenic. And there are the subtle costs of delay: By the time we comprehend the dangers posed by polyvinyl chloride and asbestos, huge investments and even patterns of life have built up around them, making changes "unrealistic."

Invading the corporate structure

It is against these drawbacks that we should evaluate the emergence of a new approach to the control of corporate misconduct. The harbingers are so unheralded, and on such scattered frontiers, that few people have yet recognized it as a distinct new legal genus, and one of considerable significance.

Traditionally, the legal efforts to control corporate misconduct have taken two tacks. The first has been to allow a firm a great deal of autonomy in its planning and implementation, but to subject it to penalties if its choices turn out badly. If a manufacturer's product is substandard and causes injury, the company (under the counter-organizational strategies) or sometimes select employees (under the counterpersonnel strategies) may be held answerable. The second approach (which can be viewed as evolving from perceived shortcomings in the first approach), has been to displace the judgment of the firms with the judgment of public agencies regarding certain product, service, or more recently, work-place qualities. Department of Transportation regulations, for example, require that autos include seatbelts; the Occupational Safety and Health Administration (OSHA) requires that certain guard rails be 42 inches high.

By contrast, in the developing style of corporate control, the law neither stands aside until harm has been done, nor does it impose inflexible standards. The idea, instead, is to decrease the likelihood of harmful behavior through direct legal requirements regarding corporate *management structure* and *decision processes*. This is not a wholly new approach, but it has been used in the past only sparingly and, as I observed earlier, ordinarily in the interests of the investor. As a condition of enjoying corporate privileges, a business must establish a board of directors (usually with at least three mem-

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bers), a president, and (varying from state to state) perhaps a secretary and a treasurer. But traditional law has not gone beyond that to insist upon designated medium-level and lower-level management positions. We allow a company handling explosives to decide, wholly on its own, whether to have an executive in charge of safety, and if so, to determine his powers and level in the management structure.

In the past few years, however, there have been indications that this historical reluctance to invade the corporate management structure is fading. In 1973, a consent decree settling numerous charges of discrimination against women and racial minorities directed the Bell companies to establish compliance officers whose duties—mostly monitoring of hiring, firing, and advancement—were spelled out in detail. The current regulations of the Food and Drug Administration (FDA) require the drug companies to establish quality-control units, many of whose powers and obligations are prescribed by the government—i.e., withdrawn from the sole discretion of the companies. In 1974, in settling a civil fraud action against Mattel, Inc. (growing out of improper financial reporting), the Securities and Exchange Commission (SEC) forced the giant toy manufacturer to establish two special committees of the board—one on financial control and audit, the other on litigations and claims. The functions of the committees are not left for the corporation to establish—as is traditional—but are spelled out in the order of the court.

Such recent "invasions" of organizational autonomy have not been limited to establishing new posts and committees. In several areas, the "outside world" has begun to prescribe criteria concerning who may hold, and who may be disqualified from holding, certain corporate jobs. Requirements have been imposed on corporate internal information systems, with provisions that data of a specified sort must be gathered by firms, and considered by designated officers for action. The recent FDA regulations, for example, require that responsible corporate officials be notified in writing of possible drug-products defects, so they will not be able to claim later that they "knew nothing about it."

In other areas, the managerial level at which decisions of a certain kind must be made is no longer solely a matter of company discretion: The Federal Communications Commission allows radio broadcasters the final say on playing records that glorify illegal drugs, but insists that "someone in a responsible position [i.e., "a management-level executive at the station"] know the content of the lyrics." Internal lines of authority have been specified; by law, those who audit

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a quality-assurance program at a nuclear plant must be independent of the areas being audited.

Perhaps most intrusively of all, the "outside world" is increasingly taking a hand in the selection process by which key corporate slots are filled: Directors and special counsels have been "negotiated" into corporations, with court, agency, and/or plaintiff-shareholder approval. Such actions are appearing mostly in response to securities-law violations. But at least one federal judge has warned a recidivist corporate polluter that if it did not mend its ways, the court would send its own designate into the company—as a sort of in-house "probation officer"—to take over the pollution-control activities of corporate officers who might be interfering with the process of rehabilitation.

It is not just the profit-making corporations that have been subject to these developments. Within the past few years mental hospitals, prison systems, and school systems have been placed in "receivership," as it were, by federal and state judges, with the courts appointing trustees or their equivalents and occasionally ordering some restructuring of internal organization and procedures. Recent reports on the CIA and FBI have urged bureaucratic restructuring as a means toward tighter control. And the National Institute of Mental Health is laying down guidelines for genetic research (primarily in universities and research institutions) that detail critical features of internal management.

Organizational-adjustment measures

All these forms of control can be classified as what I call "organizational-adjustment measures." Unlike the traditional approaches, their focus is not so much on what the organizations *do*, but on the ways that the organizations *decide*. In general, the strengths of these new approaches are almost point for point the drawbacks of the traditional measures. The traditional measures are oriented remedially. The organizational-adjustment measures focus on prevention. The traditional measures undeniably have a prospective element insofar as they raise threats of future liability. But as we saw, there are reasons to doubt that threats to organizations or their employees will induce the most appropriate changes in information systems, role definitions, authority structures, technical programs, etc. By contrast, the new measures prescribe the presumably appropriate changes directly.

The traditional approaches, insofar as they are based on adminis-

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trative or legislative rule-making, have an even more fundamental drawback: the inevitable lag between the identification of a problem and the institution of a rule to cover it. Are employees who work with asbestos being subjected to high risks of cancer? What psychological and physical dangers lurk in various forms of manufacturing processes? What are the dangers of various forms of pesticides to field workers, consumers, and the environment? Tragically, these are all problems that corporations were anticipating (or could have anticipated, given adequate adjustments) long before the lawmakers got wind of them. It is the company doctors who first treat the injuries, company chemists who live with and first test the new compounds, and company health records in which data gathers. One of the virtues of the organizational-adjustment measures is that by requiring corporations to pinpoint areas in which rule-making may be needed, organizations are, in effect, brought into the law-making process.

Now, of course, nothing the law does is ever so one-sidedly good, and I cannot deny that these organizational-adjustment measures, like much else that emanates from our vast governmental bureaucracy, will have their own costs and complications. Requiring special personnel and tasks imposes expenses that can, from case to case, exceed the most optimistically anticipated benefits. Other measures risk politicizing corporate policies and personnel selection, with unforseeable but troublesome implications. And there is a toll these measures could exact in organizational innovation and efficiency. Universities aim to educate; armies, to fight; hospitals, to treat and cure. These goals provide a context in which commands are interpreted and actions synchronized. The more the intrusions reinforce aims that seem inconsistent or discordant—or are just plain stupid—the more energy will be wasted, in resistance and bad feelings.

The true costs

All these costs concern me, but I think they must be kept in perspective. Sometimes the true costs seem rather low on any scale of measurement. Consider the Nuclear Regulatory Commission's decision that a licensee establish a security organization and "maintain and follow written procedures which document its structure and . . . detail the duties of . . . individuals responsible for security." Such an approach, which leaves it up to the licensee to supply the details of organizational responsibility, can hardly be faulted as either expensive or stultifying. Yet it has the virtue of forcing the company to

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think through problems and relationships that it might not otherwise come to grips with, and to clarify what is expected of each individual. From the point of view of costs, one wonders what real objections there can be, other than that it increases the accountability of persons who would rather remain anonymous.[1]

We should also keep in mind that in many situations the organizational-adjustment measures may prove a lot less costly and less stultifying than the most likely alternatives—such as an outright injunction against production, or a product recall, or increased government authority over the most minute details of operation. In one of the first occasions when the courts and the SEC became involved in the appointment of a special outside director, the idea came not from the government but from one of the corporation's own defense lawyers—the alternative would have been to plunge the company into receivership. Similarly, although Mattel had to spend many thousands of dollars to implement the settlement mentioned above, the arrangement may have been a relatively inexpensive way to restore consumer, creditor, and investor confidence in a scandal-rocked company. Indeed, Mattel has not split apart—as some might have predicted—from the divergent forces of all those special directors, committees, and counsel, but has recently turned a profit.

Sometimes, it is true, the costs of internal invasions will prove large and nagging—such as with the extensive pre-market testing required under the new Toxic Substance Control Act. But even then, who can say that the benefits may not be greater still? Two chemical spills alone—of kepone into the James River and PCB into the Hudson—have caused losses running perhaps into the hundreds of millions of dollars, and considerable human suffering. The long-range effects of aerosols on the atmosphere are still unknown, but potentially beyond measure.

I do not mean to suggest that the organizational-adjustment measures are foolproof or that—had they been in operation—they would have nipped all these problems in the bud. But in so many of the commercial tragedies of recent years, it is striking how many clues of danger there were, which were not acted upon because of institutional weaknesses.

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[1] Increased accountability need not rest only on moral and psychological grounds. Nonperformance of a specified obligation can be made to require immediate discharge of an employee; the legal system can make an individual who failed to abide by his job description answerable to anyone who is injured by a product that passed through his control, whether or not the injured party can prove negligence. It would also be possible to attach criminal sanctions for nonperformance in certain circumstances.

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Some general guidelines

I draw several conclusions from all this. Society will, and in my view should, increasingly explore organizational-adjustment measures as a means of preventing corporate misconduct. Such measures are, however, fraught with risks; before we see their wholesale employment, considerable thought must be given to the sorts of situations that might initially warrant their employment on an experimental basis, as we try to learn more about their strengths and weaknesses.

It is probably easiest to justify the use of the measures when the agency or group desiring the internal adjustments has access simply to bargain for the changes—for example, when the government is contracting for the development of a relatively unique product (e.g., a weapons system) and wants the contractor to provide an acceptable quality-control system, to accept on-site military representatives, etc. The contractor does not want to surrender managerial autonomy freely, but to the government such concessions are a form of performance "insurance," for which it is prepared to pay as part of the contract package.

In many respects, demands by unions to participate in management are of the same character. Traditional union demands have involved fixed targets (wages, hours) rather than an ongoing involvement in the decision process. But at some point, the employees' marginal welfare will dictate a shift in focus. For example, the Oil, Chemical, and Atomic Workers have increasingly sought representation on the company committees that establish health and safety standards. Rather than to discourage such demands or rule them out of order as "invasions of management prerogative," such practices should be encouraged, to see if they might be molded into practical alternatives to some of the externally imposed mechanisms of, e.g., OSHA, which are less subject to cost-benefit constraints.

A similar situation involves the settlement of shareholder derivative actions, suits brought on the company's behalf against directors and top officers for losses caused by their negligence or willful mismanagement. Such actions have traditionally been settled by payment of a generous bounty to the plaintiffs' attorney, a modest reimbursement by the defendants, and some cheap promises to be more careful in the future. Recently, however, at least one public-interest law firm has insisted on settlements that reconstitute the company's managerial structure as a means of preventing the recurrence of the wrong; other settlements have included establishing new board committees, the appointment of special independent di-

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rectors, changes in board size, amendment of bylaws, etc. It is easy to see that, in part, these concessions are being granted by those who run the companies in exchange for smaller personal payments than they otherwise would have to make. But if the settlement is approved by the shareholders, there is no reason to discourage such trade-offs; an organization may stand to benefit more from a moderate reconstruction of its management than from the classic but perfunctory cash payment.

There are other situations in which several companies in an industry—ordinarily the more responsible and financially stable—will favor a particular measure (an extra degree of pre-market testing, say), but will be reluctant to adopt it unilaterally, fearing a competitive disadvantage. In this case, a government-"mandated" organizational change is nothing more than a way of implementing broadly accepted minimum standards. As a result, resistance is likely to be minimal, and success high. Such changes do have one interesting drawback (in common with a good deal of legislation): Since the costs are more readily borne by the larger companies, the extra protection of the organizational-adjustment measures may clash with some of the values that underlie the antitrust laws—such as preserving competition.

Beyond these areas in which the organizational adjustments are negotiated or generally acceptable, justification becomes more difficult. The strongest argument for intercession is that an organization has already broken the law or caused serious injury, and the internal adjustments are demanded as a condition of probation. Corporate probation is a notion that has received surprisingly scant attention, especially considering the unavailability of other remedies used in dealing with individuals—e.g., imprisonment, or psychotherapy as a condition of release. Under a model corporate rehabilitation bill that I have drafted, when a company has been convicted of a criminal offense or subjected to a civil judgment in an amount greater than $250,000, the court may hold a hearing to determine whether the conduct giving rise to the judgment arose from an uncorrected pattern of company policies, practices, or procedures, and whether the company might reasonably be demanded to make changes in them after considering costs and benefits.

If the court so found, it could order the company to report in a "proposed rehabilitation agenda" why, in its opinion, the wrongful conduct had occurred, what measures it proposed to prevent a recurrence, and which officers would be responsible for carrying out

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the agenda. (If the company believed that no special rehabilitative measures were necessary or feasible in the circumstances, it would so state and explain.) When an agenda acceptable to the court and interested parties was arrived at, its terms would be, in effect, a probation order. I doubt that there would be widespread need for the courts to exercise such powers, but they would be important to have on hand, especially to deal with corporate recidivists—the chronic price-fixers, polluters, etc.

The non-profit organizations are another area in which the case for extending these measures seems especially strong. In many ways, non-profits are the most undaunted by present law, sometimes through the special immunities they enjoy, sometimes because of judicial sympathy, and sometimes because their management is further removed from profit constraints than the management of business corporations (although the differences are not nearly so striking as the terminological distinction between "for-profit" and "not-for-profit" would suggest). For example, the financial management of non-profits is notoriously bad; all the reasons for requiring, say, independent audit committees on corporations listed on the stock exchanges would seem to apply all the more forcefully to some of our giant charities. I have no doubt that municipal corporations and other governmental agencies are peculiarly suited to being brought under internal requirements of various sorts, but here one must be particularly sensitive to the blurring of political lines of authority.

Finally, there is a range of situations—unfortunately, the broadest—that possesses none of the simplifying features of the cases discussed above. Where our concern is with staving off damage from toxic substances or dangerous drugs, for example, the interests involved cannot as satisfactorily be brought into negotiation, the risks of allowing "one bite of the apple" may seem too large, and some of the measures the society might propose (e.g., intensive pre-market testing) may lie well beyond the minimum standards the organizations will accept as appropriate. Each case will have to be judged on its own merits, and one can only hope that some sense of proportion will be maintained. How serious, in terms of magnitude and irreversibility, is the harm we are trying to prevent? Are the existing measures for coping with the problem really inadequate, and are there alternative methods available? What costs will the contemplated organizational-adjustment measures impose? And if they are implemented, what is the likelihood that they will succeed? Are there procedural "ground rules" we can establish to allay the conflicts and confusions?

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Restoring cooperation

How well organizational-adjustment measures will work, I cannot say; the answers will obviously vary from case to case. But in spite of my own reservations, I think that in many areas such measures are going to spread—and spread successfully—precisely because the corporations will come to recognize that, as a way of dealing with a significant range of problems, the idea has something in it for them, as well as for the public.

This may sound odd. But what is most evidently missing in our corporate/social relations today, and needs to be restored, is a measure of mutual trust and respect. As things stand, we are settling into a self-defeating cycle in which the anti-corporate sentiment is increasingly shrill and ill-informed, and the corporate response is too often self-defensive, unheeding, and unconstructive. When the evidence suggests a possible problem—like work-related cancer—governmental agencies, distrustful of what is going on within the corporation's walls, will be inclined to slap together a battery of regulations without adequate information, if only to protect themselves from criticism.

In such circumstances, some systematic integration of the "inside" with the "outside" could lead—and may be the only way to lead—to new, more productive patterns of cooperation. From the point of view of corporate management, it seems no great hardship to provide assurances that internal regulations (for example, quality control) are being carried out effectively and in good faith—and to identify those now-anonymous employees who will be accountable if they are not.

In any event, such an arrangement is a lot less intrusive than having Washington take over a growing number of decisions on the most minute details of operations, or being forced to collect and hand over ream upon ream of undigested raw data. From the point of view of the regulator, there are also several advantages. It is far less costly for the government to send a single inspector to certify a quality-control system, than to try to oversee each and every detail of operation. Similarly, to contain bribery, it makes sense to conscript the firms themselves into enforcement service, by requiring them to institute appropriate internal accounting procedures—if only because there are simply not enough federal auditors, thank goodness, to go around. To regulate behavior in this fashion, with some degree of irreducible "self-policing," involves a larger measure of trust than the most outspoken corporate critics may be prepared to allow. But they should realize that when the law tries

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to overextend its reach, there is inevitably a tendency for the organizations increasingly to wink at violations that are not likely to be detected, and to comply only begrudgingly, when it is prudent to do so. (Resistance to law need not always take the form of foot-dragging or fudging data; one of the most effective ways for a corporation to keep "those idiots" off its back is to answer their requests with truckloads of data.)

All these measures will undeniably bring along their own red tape. My hope is that as a sort of historical quid pro quo, there will be a reduction elsewhere in the inevitable and unnecessary paperwork that results when the government has to second-guess the corporations from a distance, or fire shotguns—when a less suspicious and more cooperative effort might do every bit as well.

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Power to the parents?— the story of education vouchers

DAVID K. COHEN & ELEANOR FARRAR

EDUCATION vouchers were the *enfant terrible* of recent school reforms. Yet the idea seemed appealingly innocent: Instead of giving money to public schools and thus requiring either mandatory attendance or additional outlays for private schools, vouchers would directly aid families so that they could enroll their children in schools of their own choice. The idea of vouchers gained the attention of many reformers in the 1960's because it promised to solve so many educational problems. Christopher Jencks and other radical critics thought vouchers would improve ghetto education by offering parents and teachers alternatives to the failing public schools. The country's impatient youth liked the idea because it would enable more people to afford their "free" schools. Some Catholics thought vouchers might boost enrollments in parochial schools, which were sagging under the pressure of rising costs and shifting values. And Milton Friedman, searching everywhere for some vestige of capitalism in mid-century America, discerned a market mechanism in parent choice and promptly pronounced vouchers the only hope for educational efficiency.

The idea was attractive partly because it seemed to address such disparate hopes. But everyone agreed that vouchers would promote "competition," which would loosen up public school systems grown rigid with age, size, and professional power. The fear of losing stu-

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dents and revenues would move schools to improve curricula and increase responsiveness.

One might think that a notion with such diverse appeal would take the country by storm. Instead, it stirred up a hornets' nest of opposition. Teacher organizations viewed competition among schools as an invitation to union-busting—a fear that Professor Friedman's endorsement did nothing to relieve. Administrators were afraid of losing control over budgets and appointments. Civil libertarians were apprehensive that the flow of public monies to sectarian schools would represent a breach of the constitutional separation between church and state—a concern that was not alleviated by Catholic support for vouchers. Civil-rights advocates were in favor of allowing urban blacks to choose their own schools, but balked at the prospect of granting whites the same freedom of choice—which, they held, would be a disaster for desegregation. Finally, many thought that vouchers would eviscerate one of the nation's few egalitarian institutions by paying for private education at the taxpayers' expense; public schools would then become the alternative of last resort, reserved for those without the wit to go elsewhere.

Whereas most federal educational programs are launched with Congressional hoopla and Presidential panegyrics, vouchers were thus introduced in an angry political atmosphere. The idea excited visions of change in the minds of both radical and conservative theorists, but it produced only nightmares for the moderate masses known despairingly as "liberals" six or eight years ago. Given their fears, the wonder is that the idea of vouchers was not stillborn.

It wasn't, partly because it was conceived in something of a political vacuum. The idea had caught the fancy of the few left-wing bureaucrats still remaining at the Office of Economic Opportunity (OEO) while the Johnson Administration was coming unstrung over Viet Nam. Partly as a result of their help, Jencks and several of his Cambridge colleagues were awarded a grant to study the feasibility of vouchers. The result was a thick report that—like many studies—solemnly announced that the ideas of its authors were indeed feasible. In fact, there was even a plan describing how vouchers would work (*Education Vouchers: A Report on Financing Elementary Education by Grants to Parents*, Center for the Study of Public Policy, 1970), which was duly dispatched to Washington.

By that time the Nixon Administration had begun reshaping OEO: Tired old liberal ideas and big give-away programs were out; modest experiments were in. The new OEO staff knew the difference between Milton Friedman and Christopher Jencks, but they

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read the report, and after some exploration—and a bit of urging from the authors and their friends in the Administration—decided to give vouchers a try.

Support for vouchers by the Nixon OEO did not exactly assuage the fears and suspicions of liberals, who responded with a barrage of criticism delivered through the mails, the media, lobbyists, and Members of Congress, and in some often nasty confrontations euphemistically known as "briefings." The new OEO staff were somewhat taken aback by the ferocity of this response, but stuck to their commitment to social-science experiments: All they sought, they said, was a dispassionate test of the idea. They didn't favor vouchers —just new alternatives. If vouchers were half as bad as everyone said, then they would deservedly sink without a trace; if not, then who knows—perhaps they merited consideration. A curious collection of conservative theorists, radical reformers, Republican politicians, and social experimenters thus managed to persevere under the banner of science. In 1969 a federal effort was launched to test education vouchers. It was a frail craft, but it did float.

Eight years later, it still does. In the meantime a good deal of evidence has been accumulated—some of it from a single school district in Alum Rock, California, which has operated a trial program for several years; some of it concerning the extensive efforts to get other areas to try vouchers. One wonders what might be learned from all this evidence. It would be a mistake to anticipate a definitive verdict, for the experience has been limited. Anyway, no decision could be conclusive about something as interesting and problematic as education vouchers. But the experience so far does illuminate several points of interest. Does the diagnosis of school problems still make sense now that the prescription has been administered and the patient observed? And what has become of federal efforts to improve education by experimenting with political reforms? We will address these questions on the premise that something may be learned—both about "what is wrong with schools" and about federal efforts to "set things right."

Implementing a test

Education vouchers seemed an appealing way to correct the balance of power in education, to reduce the sway of professionals and increase the influence of parents. It was hoped that if parents could exercise free choice, schools would compete by undertaking new educational ventures, which would presumably succeed only

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if they truly reflected the wishes of the parents. The mere existence of competitors, it was reasoned, would weaken the monopoly in education by encouraging schools to be responsive to the public.

This idea made sense to both radical and conservative reformers because it placed responsibility for school problems squarely on the public education monopoly—a large, clumsy, and perverse creature that had become by 1968 a popular political scapegoat. Professionalized bureaucracies, it was held, had become calcified, unresponsive, insensitive to cultural variations, and capable only of doing the same dreary things, year after year.

This was a trendy diagnosis of school problems, but hardly a promising prognosis for a voucher test. After all, the educational bureaucracy presumably was in charge everywhere, from Albuquerque to Xenia. Why should the established authorities tolerate an idea designed to diminish their power and make their lives much more uncomfortably competitive? The federal sponsors of the voucher test program never had a clear answer to this question, but they began with efforts to organize local parents and citizens. The notion was to pressure the local monopolists from below: It was hoped that if enough grassroots support could be mustered, school boards and professionals would have to cooperate with a test.

But this approach didn't square with the reformers' diagnosis of school problems: Local authorities could be expected to resist such a challenge, and Nixon's OEO was in no position to agitate against them. At that time, OEO was slathering itself in social science; and besides, there was Daniel P. Moynihan, then the President's counselor, who had just published a book about how OEO had made social problems worse by stirring up local communities. So organizing communities to force a voucher test seemed uncomfortable in principle.

Worse yet, it did not work. The insurgent forces were never powerful enough to produce a voucher experiment, and as a result federal reformers began again at the top. Enlisting administrators and board members seemed more appropriate, but it did not help much either. Aside from the fact that educators sympathetic to vouchers were hard to find, turning to them did not solve the political problems, for in almost every case, local administrators lacked the power to mount a test. After all, they had boards, teachers, principals, and parents to worry about, none of whom was ecstatic about vouchers. So the same difficulty kept turning up in different forms. The federally organized local forces were too weak to succeed without support from within the school power structure, and administrators

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within the bureaucracy were impotent because they lacked outside support. The ensuing story illuminates a problem that has plagued so many federal agencies and faddish foundations: how to produce political reform in somebody else's town with only bright ideas, some outside consultants, and a little free cash.

Groping at the grass roots

The voucher plan drawn up by Jencks and his associates at the Center for the Study of Public Policy (CSPP) was cautious and carefully hedged. It favored individual choice, but in harmony with several competing values. The plan sought to shield minority and poor students from discrimination, to ensure maximum protection for consumers against the claims or indifference of schools, and to prevent public schools from becoming the alternative of last resort. The resulting idea for a "regulated compensatory voucher" was thus a complex and cumbersome creation—an effort to promote freedom of choice, equality, and due process all at once, while radically revising public schools.

The voucher plan was thus something of a Rube Goldberg contraption. It supplied fiscal incentives for schools to enroll poor children and to prevent economic discrimination. It provided detailed admission policies permitting applicants their choice of schools, schools their choice of applicants, and applicant lotteries—all at once—to protect the families' desires to select schools, the schools' desires to select their students, and the authors' desires to prevent discriminatory admissions. And the scheme included an elaborate plan for an Education Voucher Agency, independent of the participating schools, to administer voucher distribution and accounting, oversee school quality, and provide consumers with information to make informed choices.

CSPP, then, did not propose a simple idea. Milton Friedman had argued for simplicity, favoring a laissez-faire approach on the view that regulation would interfere with operations. But the authors of the CSPP plan demurred: They argued that vouchers could take many forms, but nearly all would be an absolute "disaster" for education. Besides, they were not convinced that operations would ever get underway unless the plan included safeguards to mollify angry opponents. Avoiding trouble, they said, would require dispensing with the simplicities of Friedman's free market, and faithfully following their plan. But as a result, the CSPP voucher project embraced the worst of both worlds. On the one hand, although the

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plan strained to protect equality and avoid discrimination, these efforts neither appeased the liberals nor reduced their opposition. On the other hand, making what had been a simple idea infinitely complex impeded easy discussion, quick comprehension, and local adaptation.

OEO hired CSPP to stimulate the local discussion and adoption process, but there were two problems. First, the CSPP staff was a rather implausible group for such work: Its members were bright, but few had been in a school since they were students (several had been schooled at such places as Andover and Choate). They were inclined to believe that the people who ran public schools were either dim or nasty—or both. Second, although CSPP staffers tended to be partisans of "community organization," they rather liked living in Cambridge. This posed a few difficulties when it came to inciting the masses in Peoria.

The situation in Washington did not help. Vouchers were new and controversial, and lacked a real constituency within the government. By contrast, the other big OEO experiment, the negative income tax, had taken years to percolate through the higher civil service in the 1960's; much of the bureaucracy remained intact and supportive after the Republicans took over. In addition, there was Mr. Moynihan, an articulate and powerful negative-income-tax advocate close to a President who wanted to make something like the tax experiment into law. Vouchers, however, had no such support. Moynihan more or less liked the idea, and he liked the people at Cambridge who liked it. But few others in Washington did, and many did not. Vouchers were thus something of a political albatross for OEO.

As a result of all these difficulties, voucher projects did not take fire in local communities.[1] The chief reason was that no stable or cohesive support for the plans ever developed in any of the cities. One possible source of support was the Catholics, but they preferred other approaches to parochial-school aid. Worse yet, most of the other local participants who favored vouchers did not favor Catholics. The CSPP report was uneasy about the Supreme Court decision permitting vouchers in church schools; the CSPP organizing staff was reluctant to see its pet project tainted by parochial affilia-

[1] Interestingly, the written analyses of the efforts to organize and promote vouchers are not available. OEO and the National Institute of Education (NIE) funded such histories, but so far they remain unavailable to anyone but NIE and the authors. This article is thus based on interviews with participants in many of the prospective sites, on the CSPP and NIE files, and on interviews with NIE, OEO, and CSPP staffers.

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tion. So even when Catholics were supportive, they were encouraged to be discreet.

CSPP and OEO expected the poor and minorities to be another natural interest group. Their children, after all, were being so badly served by the schools; surely these parents would welcome alternatives. But the poor were mostly unorganized; any effort to turn them into an active interest group would have required vastly more time, energy, and personnel than CSPP had. Its part-time and episodic contact with local communities meant that CSPP could deal only with organized groups, or coalitions of such groups, or leaders who seemed likely to invent or recruit groups for themselves.

Blacks were organized, but their ideas about school reform had been shaped by decades of civil-rights struggle over education. In seeking to desegregate schools they had learned to distrust any scheme that either placed the burden on minority choice or allowed whites not to choose minority schools. So when a group of white academics proclaimed vouchers to be a new solution to black school problems, established black organizations were either hesitant or hostile. Local organizing on behalf of vouchers quickly became entangled with local political conflicts over race and education. In Seattle and Rochester, for example, integrationists saw vouchers as a way out for whites; consequently they opposed a test, which they regarded as either a racist trick or sabotage. CSPP pleaded that its plan would protect integration, but local civil-rights advocates—given their experience with "freedom of choice" and their knowledge that vouchers were sponsored by the same Nixon Administration that opposed busing and favored neighborhood schools—were either hostile or skeptical. Worse yet, although the pledges of CSPP failed to placate the integrationists, they were sure to offend potential voucher supporters who opposed integration. Either way, the organizers lost.

Another reason for the lack of local enthusiasm was the fragmentation of political power in the cities. The voucher-project staff labored under a delusion widespread among recent school reformers: that political power in urban education is centralized and monolithic, and that organized grassroots power is needed to overcome resistance.[2] But although there was often little change in city schools, this resulted more often from decentralized and fragmented local power structures. The voucher field staff found the power of urban superintendents seriously hampered by politically divided

[2] Christopher Jencks, "Is the Public School Obsolete?" *The Public Interest,* No. 2 (Winter 1966), pp. 18-27.

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boards, by the autonomy of principals and district administrators, by the power of organized interests inside and outside the schools, and by bureaucracies with powers and minds of their own. While it was possible to keep school systems running through complicated treaties among these groups, it was difficult to change the rules in any important way without throwing the agreements into doubt—and the parties into a mild panic.

Vouchers, of course, were not just any change: They would have required the renegotiation of all treaties binding a city school system together. The idea thus raised anxieties all around; when vouchers appeared in cities like Seattle, San Francisco, and Rochester, many principals were opposed, teacher organizations were skeptical or hostile, most central administrators were dubious or completely negative, and school boards were divided. The problem was less monolithic resistance than decentralized uneasiness.

Working from within

Since there was little indigenous support for education vouchers, OEO and CSPP were gradually moved to try a different tack—organizing a test by gaining the support of local boards and superintendents. Several sites with interested administrators or board members were duly found. These school districts were much smaller and, for the most part, much more homogeneous than the cities in which earlier work had been done.

But support from the top, even in such relatively manageable places, was no more effective politically than pressure from below had been elsewhere. Once again, a major problem was the fragmentation of political power. The superintendent in East Hartford, Connecticut, for example, was personally quite committed to vouchers, but many teachers and principals were opposed. Given the explosiveness of the voucher idea, the superintendent then grew cautious. The chairman of the New Hampshire state board of education, a devotee of Friedman's economics, was also a strong supporter of vouchers. With a clear majority of the board, he got a state planning grant for a "free market" voucher test from an unwilling OEO (the Nixon White House helped), but then had problems lining up local districts. Only after securing extra federal money and promising local districts the chance either to influence decisions or to bail out, did he manage to persuade five districts in the southern part of the state to allow preliminary planning. As time went on, of course, even these districts became aware of the prac-

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tical implications of vouchers; finally, they dug in their heels, and would not buy a test.

The other major reason that efforts to work down from the top failed was that state and local leaders were committed to vouchers because they liked the idea—not because there were real local problems that vouchers might solve. It was easy to favor competition and choice, and to oppose the bureaucracy, but in practice choice and competition turned out to have hard and nasty meanings: Parents could choose some local schools and not others; some schools would be forced either to expand to meet demand, or to turn away interested parents; other local schools could shrink or close, costing the jobs of teachers and principals. All this meant there would be some very angry teachers and principals—and that meant trouble.

None of these possibilities was entirely clear at the outset. But as planning progressed, local administrators gradually realized that they were being asked to sacrifice a fairly comfortable situation in favor of a much more prickly and unsettled one. In New Hampshire, the local administrators responded by trying to remove the sting from vouchers by redefining the plan, removing most of the choice and competition with an engaging Yankee directness. The superintendent in East Hartford also tried this, and avoided decisions whenever possible. In both cases, local administrators grew ever more unwilling to meet the bare minimums of a local voucher test: They became increasingly allergic to encouraging choice, supporting new alternatives, allowing unchosen schools to fail, or permitting a strong and independent voucher agency. Equivocation and compromise took over. The more local leaders learned about this dream of reform, the more nightmarish it seemed.

As a consequence, efforts to secure test sites were often makeshift operations. Almost nothing ever happened on time; almost nothing was done well. Indeed, it often seemed that almost nothing would have happened at all had not CSPP and NIE kept up a constant stream of bureaucratic and technical support. CSPP wrote the local proposals to get the NIE money. In both New Hampshire and East Hartford, CSPP helped to draw up schedules and then harassed the locals into heeding them. CSPP designed training programs for teachers, put together community information campaigns, wrote letters for the administrators, and in many other ways did the work for the locals. Without such "technical assistance" the local efforts would have fizzled out early on. As things turned out, all that help only postponed the inevitable. By 1976 all the potential test sites had failed.

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Working from within thus proved as unsuccessful as groping at the grass roots. Insiders and intellectuals saw vouchers as a solution to vague and abstract problems, such as monopoly power in education—not as the solution to the day-to-day problems of running a school system. But contrary to the received doctrine of contemporary school reformers, local communities were not primarily concerned with power, choice, and participation. As a result, they did not work themselves into a sweat of enthusiasm for vouchers, and there was thus no real pressure for change—even when the opportunity fell into their laps.

The Alum Rock experience

But in Alum Rock, California, by contrast, administrators at least fancied there were real local problems that vouchers would help to solve, which helped generate political and administrative support for a test. The schools in Alum Rock were in poor financial shape in 1971, and Superintendent William Jefferds thought they had other shortcomings as well.[3] They had long been run tightly from the top; there had been little flexibility within the system for some time; and the same old jobs were being done in the same old way. Jefferds felt that the system was in danger of stagnating and that education for the numerous black and Chicano students needed to be improved.

The superintendent of this small school district thus wanted a voucher test because he wanted to decentralize the Alum Rock schools and because he needed money. But if decentralizing the schools struck top administrators as the right course, no one knew how to pay for it. At the same time, OEO was fresh from several stunning defeats in other cities, and feared that without a working demonstration the whole voucher project might soon sink. At first, Alum Rock excited no one: It was a smallish district near San Jose composed largely of minority and poor families, with little promise of diversity in its schools or interest in its community. But in the early discussions, Jefferds quickly learned that OEO and CSPP

[3] This section of the article is based on several sources: the published reports of the Rand Corporation (the evaluator of the Alum Rock effort); interviews with staff at NIE and Alum Rock; and interviews with Rand researchers. The Rand publications most useful are E. Levinson, with S. Abramowitz, W. Furry, and D. Joseph, "The Politics and Implementation of the Alum Rock Multiple Option System: The Second Year, 1973-74," *Analysis of the Education Voucher Demonstration, A Working Note* (May 1975); Stephen S. Weiner and Konrad Kellen, "The Politics and Administration of the Voucher Demonstration in Alum Rock: the First Year, 1972-73," *Analysis of the Education Voucher Demonstration, A Working Note* (August 1974); Daniel Weiler, *A Public School Voucher Demonstration: The First Year at Alum Rock* (June 1974).

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needed him more than he needed them, and OEO and CSPP found an avid enthusiast for parental involvement and innovation at the school level.

The ensuing negotiations were not easy. One reason was that some Washington and Cambridge staffers still felt that Alum Rock was a silly place to try anything. Another was that Jefferds nearly lost to the local opponents of vouchers on one occasion, and barely avoided defeat by postponing everything for several months. A third reason was the failure of the California legislature to pass quickly a bill permitting public monies to flow to private schools, something everyone regarded as necessary for a voucher demonstration.

The most important problem in the negotiations, however, involved differences between the priorities of OEO and Alum Rock. OEO wanted a test of consumer sovereignty, while Alum Rock wanted OEO support for its decentralization plan: OEO had the money, and Alum Rock provided a potential test site. OEO didn't like the idea of such an "impure" test, but OEO had to take what it could get. Jefferd's superior bargaining position became obvious when he got OEO to produce some money for his decentralization program even before Alum Rock agreed to the voucher test. As is so often the case with professional reforms, the only way to get anything done is to let the locals do what they like—as long as they say they are doing what the reformers like. The reformers are really at the mercy of those they are reforming.

Cooking up the voucher test thus began with one small and dusty California school district, poor and discontented. To this were added two rather different recipes for political reform, a dollop of federal dollars, and intermittent doses of outside advice. With such ingredients and so many contending cooks, it is no surprise that the result was eventually something of a stew. But if Alum Rock did not test a single clear plan, its experience does throw some light on how vouchers worked in practice—if not how they might have worked in principle.

What happened when Alum Rock tried to reform its schools? Did more diverse educational offerings result? Did schools become much more responsive to parents? Did the power of professionals wane while that of parents waxed? Were families more satisfied? Was schooling improved?

The central theme in our answer to these questions is that the Alum Rock voucher test confounded almost all expectations—from the cautious hopes of Christopher Jencks to the dire warnings of

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Albert Shanker. There was indeed more consumer choice, but not consumer sovereignty. Parents had more freedom to choose among more varied educational offerings, but as far as anyone can tell, they gained little power. Only the school-level professionals gained in that respect. Not only did teachers and principals inherit power from the central office as a result of decentralization, but they also acquired influence from the greater flexibility, uncertainty, and fiscal leeway that followed from parent choice.

Limiting choice and restricting competition

One point of the reforms in Alum Rock was to offer families more options for their children and to give professionals more latitude in defining school programs. But these choices created uncertainty, and unsettled parents and professionals. In a meeting to discuss proposals called by the district in the spring of 1971, parent representatives worried that children might not be able to attend their neighborhood schools. They sought and obtained a "squatters' rights" agreement whereby children already enrolled could attend neighborhood schools if they liked. Parent representatives also saw to it that every voucher school would offer at least two alternative programs, to prevent children from being forced out of a local school by distaste for the program offered. (OEO sought a compromise after the first year of the demonstration, guaranteeing everyone his first-choice school for the following September—if he signed up before May.) Thus rather than seizing the initiative to expand choice or to enhance power, parents tried to make sure that neighborhood attendance was secure and that neighborhood schools would not be overly innovative.

It was expected that once parents were given the wherewithal to choose among schools, educators would vie to expand their enrollments and incomes. School professionals, however, were concerned with protecting their jobs. It was thus agreed that teachers who left a voucher school for reasons associated with the demonstration would be given priority in assignments to other schools, or that OEO would cover their salaries while they were assigned to headquarters. No one was to be put out on the street by consumer preferences.

This eased things for teachers who did not succeed, and at the outset no one worried about those who did. As it turned out, however, even success was no bed of roses. Teachers in schools that recruited more students were not rewarded with higher salaries:

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Although their school would receive more in tuitions, the money was to be spent for more teachers or materials. As a result, competitive success only produced more of the problems teachers struggled with every day: more children, more planning, more meetings, more colleagues, more noise at recess, more disruptions at lunchtime, and so on. Success brought more bother than benefit.

This nicely illuminated the great discrepancy between the ways teachers and voucher advocates thought of school problems. Teachers wanted better working conditions: room to breathe, to prepare, to teach, perhaps even to invent. Voucher advocates wanted better market conditions: to improve educational performance by turning up the competitive heat. Although teachers were hungry for more of the things professionals habitually crave—autonomy, more resources, and less pressure—reformers thought they already had a surfeit.

It is hard to imagine more of a mismatch. Had anyone noticed it, he might have suspected that competition would fail, or would have crazy consequences. But the reformers scored low on both sociology and school experience. The real surprise is that they scored so high on economic mythology. It is quite a testament to the continuing power of capitalism in American culture that liberal reformers not only failed to notice the obvious in education, but so thoroughly ignored the evidence concerning the effects of economic competition that littered the social landscape.

In any event, Alum Rock professionals were under no such illusions. Before the demonstration was half over they changed the market aspects of the voucher scheme to suit their purposes. The first step was to restrict demand by making it impossible for schools to expand indefinitely to meet enrollment pressures. After a year's trial with such expansion, teachers and administrators insisted that each school be given enrollment limits. From that point on, schools only needed to maintain enrollments at capacity levels, which assured the usual income without producing more than the usual strain. And since such limits meant that the less appealing schools would get the overflow from the more appealing schools, the chances for "success"—measured by enrollment—increased vastly all around.

However, the mere fact that public schools agreed to ease competition among themselves did not mean that nonpublic schools could not seek a share of the market. OEO had expected nonpublic school participation, but at first the California legislature would not permit it. OEO and Alum Rock therefore agreed to begin the

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demonstration as a "public-school-only" effort. Initial work focused on creating diversity within the public sector by encouraging differentiation and competition among "mini-schools" within existing buildings.

In the fall of 1973, the legislature finally enabled nonpublic schools to enter the demonstration. But partly because of the efforts of such public-spirited groups as the California Teachers Association, the legislation was quite restrictive. It permitted public monies to flow only to schools under the "exclusive control" of the local authorities, and it provided that the local certified employee councils (the professionals' bargaining agent) could formally review all policies in each voucher demonstration. In addition, it required that all participating schools be subject to district rules concerning teacher certification, curriculum standards, and student discipline, as well as other general rules and regulations.

Since Alum Rock was a poor district, it had no established private schools, and there were thus no disappointed private educational entrepreneurs. But a few months before the enabling legislation was passed, a group of four young teachers interested in "free schools" set out to organize an alternative school within the demonstration. The prospective school (called "Gro-Kids") got a small planning grant in the spring of 1973, and operated an after-school program the following fall.

The omens were not auspicious for Gro-Kids, however; the district leadership was ambivalent, and the teachers' organization was hostile. As a result, the certified employee council took the view that private schools could enter only if they met most of the operating standards of the public schools. This meant that Gro-Kids would be obliged to hire certified teachers and provide roughly the same staff/student ratios, salaries, and fringe benefits.

These conditions meant that private voucher schools in Alum Rock could differ from public voucher schools only in the ways public schools differ from one another. This left room for important differences, but they would be pedagogical and philosophical. The voucher idea had once again been radically revised. Although the organizers of Gro-Kids persisted and the school board voted to admit the new school in the winter of 1974, momentum had been lost. When parent choices for the following school year were made, no one selected Gro-Kids. It promptly vanished.

Alum Rock professionals thus sharply reduced the scope of economic competition, making life hard for private schools, eliminating school expansion, and protecting individual teachers from com-

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petitive failure. The voucher plan was drastically modified because schools are presently governed more by political than market forces; in Alum Rock, economic competition had no effective advocates. Such competition might have had a chance if it offered something to at least some of the participants, but it didn't.

Protecting roles and power

The failure to promote economic competition among Alum Rock schools still left plenty of room for other kinds of competition. But there was less than might have been expected, largely because of the effects of the district decentralization program. Some time before the voucher demonstration, decentralization had begun in six schools whose principals had expressed a desire for more authority. Superintendent Jefferds had procured OEO funds to prepare the six principals for more power through team-building and sensitivity training. The principals went into the training with a common interest in more authority, but they came out of it with a strong sense of group identity and an even stronger desire to get more power from the central office.

It was in precisely these six schools that the voucher experiment began. Conflicts between the goals of vouchers and decentralization—between parent power and principal power—developed almost instantly. The principals were extremely sensitive to anything that might tend to divide them, and competition among schools was exactly such a policy. They could accept programmatic differences, but they resisted such competitive devices as advertising, comparative evaluations, and the like, which would draw attention to the differences and encourage parents to act on them. Thus, the commitment by the district to increase the power of the principals through decentralization was in conflict with the commitment by OEO to encourage parent power by extending choice.

The Sequoia Institute was one focus of this conflict. Sequoia was directed by a former CSPP staffer, and the rest of its top staff were either Chicano or black. It was a bastard child of the Education Voucher Agency proposed by CSPP, an independent non-profit organization under contract to the school district, which Jefferds and OEO agreed would help set voucher policy and manage certain aspects of the demonstration. From Jefferds' point of view, Sequoia would legally be part of the district and under his control, even though it was an autonomous organization. But OEO

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hoped it would be more independent, effectively acting as an advocate for vouchers and parents: to provide parents with counseling and information, to speak for parents at all levels of the demonstration, to evaluate the performance of schools and students and disseminate the information so that parents could make informed choices, and to help monitor the project and insure that vouchers were not abused or misused.

Sequoia and the principals were incompatible from the start. The principals began by opposing the mere existence of the institute on the grounds that any addition to the bureaucracy would erode decentralization. They also objected to its view of parent advocacy and evaluation, and vigorously resisted publishing comparative information that might encourage competition among schools.

When Sequoia tried to press ahead with evaluations in the first year, the principals blocked the effort. During the second year, the Sequoia staff counterattacked and won permission to proceed, but by then it was so late that the information could only be used in the third year. And even then the principals made sure that parents were only provided information on the mini-schools attended by their own children. Information on other mini-schools —necessary to make comparisons—would have to be requested by each parent.

A similar struggle took place over the effort by Sequoia to provide counselors to help parents make choices and deal with school staff. The principals argued that if parents wanted information or help they should come to the schools' professional staff members, not some outside group. For the first year the Sequoia counselors thus lived in limbo; then they were assigned to individual schools, as principals had demanded. Their advocacy role was redefined by changing the job description, the place of work, and the chain of command.

In fact, this was the pattern throughout the history of Sequoia: New roles were redefined and transformed into old ones. Sequoia's assistant director for evaluation became the district's director of evaluation; Sequoia's director became a district administrator; the parent counselors became school registrars (some said clerks); and Sequoia became part of the district administration. In each case, the role that had initially been conceived as a reform was progressively redefined until it was hardly distinguishable from long-established and accepted practice. Not surprisingly, Sequoia did not work as OEO hoped. The reform that Alum Rock adminis-

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trators wanted proved more durable than the reform they were paid to adopt.

Parent power

A similar story can be told about parent power. Parent advocacy groups were established for each mini-school and an overall Education Voucher Advisory Committee (EVAC) was created at the district level. These groups were purely advisory, having neither resources nor any formal role in decision-making. By contrast, EVAC had not only legitimacy but visibility, its own budget, defined powers, and potential for affecting the conduct of the experiment. Still, its parent members were neither aggressive nor particularly effective. They took an active role only on matters that directly and obviously affected them, such as neighborhood attendance, and even then they were far from consistent. The parent members generally tended to be absent, poorly informed, and deferential to the professionals holding EVAC seats. Parents simply did not take advantage of the opportunities for gaining power. Like the district professionals, they accepted existing roles.

This might be explained by the fact that parents were at a real disadvantage in EVAC; expecting them to act effectively in such circumstances may be foolish. Evidence of how parents used the voucher scheme to become more powerful might better be found in areas more familiar to them—choosing schools, discovering the available options, negotiating transfers, and the like. There is, for example, the encouraging fact that all parents in the voucher demonstration made choices. But the trouble is that the project was organized to force choices upon everyone: Even parents whose children remained in a neighborhood school had to choose a mini-school within it.

Something can be learned, though, from the proportions of parents who chose schools outside their neighborhoods. In the first year, a negligible fraction did so, but this probably can be ascribed to the late start of the demonstration. During the second year, about 10 per cent chose non-neighborhood schools, and after that the proportion rose again to about 18 per cent—a distinct increase in parent initiative, but involving only a modest number of parents.

The choices parents made within schools are also quite illuminating. One might expect that high transfer rates among mini-schools signalled parent initiative or discontent, or both. The transfer rate within schools, for example, rose by about 11 per

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cent between 1973 and 1974—not astronomical, but clear evidence that a modest proportion of parents did exercise choice. Likewise, a fair proportion of parents chose innovative mini-school programs. At first, most chose traditional programs; among those who selected the more modish programs, higher-income families were considerably over-represented. The proportion of children in traditional programs did decrease by about 18 per cent, however, between 1972 and 1975.

A similar pattern characterized parents' knowledge about schools. During the first year a modest fraction did not even know which mini-school their children were enrolled in, and many more who did knew nothing else about it. In the course of the demonstration parents learned more about their children's programs, but their knowledge about the system remained fairly shallow. Most parents learned about schools from official communications, a small fraction gained information on their own, and almost all reported satisfaction with what they knew. With a few exceptions, parents involved in the Alum Rock demonstration were content to learn just as most parents do—by being told by professionals.

This is reasonably typical of American education. A small proportion of parents are active, but most are not. The voucher demonstration appreciably increased parent choice among educational alternatives, but most parents failed to become more autonomous, powerful, or involved. The existing roles may not have been entirely satisfactory, but they seem to have been sufficient to forestall much of a search for alternatives.

Programs and pedagogy

It would be a great mistake, however, to imagine that nothing happened in the voucher schools. This would make sense only if one believed that schools suffer the blahs because they are not sufficiently accountable. The absence of increased accountability did not imply stagnation; considerable change seemed to take place in many Alum Rock voucher schools.

The most obvious change was more diversity. Where before a uniform curriculum had lain over all the schools, there were now Spanish-English bilingual programs, an arts-and-crafts mini-school, several "open classroom" mini-schools, and a number of innovative approaches to reading. Some of these programs retained the regular grade-level organization of elementary schools, but others were more flexible. While some schools made few curriculum changes,

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others made modest revisions and still others made more serious departures. Three years after the demonstration began, voucher classrooms were certainly more different than they initially had been.

Probably the most striking change in the voucher schools was the increase in the independence of the teachers. The curriculum had previously been set by the central-office staff, but with vouchers decisions were primarily made by teachers, who even had the resources (thanks to the extra funds provided by compensatory vouchers) to support their choices. Administrators were no longer quite as important; teachers had more freedom to arrange their working conditions than before; more flexibility in grouping students was possible; and teachers could create smaller working groups for themselves. The program was thus easier to revise and adapt as teachers went along.

Innovation at the school level was thereby supported and encouraged by decentralization, the mini-schools, and the compensatory-voucher monies—not by competition. If one were to speculate about innovation based on the Alum Rock experience, one would have to say that social and economic encouragement were more important than competition or political power.

But the voucher demonstration was not exactly easy for Alum Rock professionals. For one thing, it was temporary. Everyone knew things would revert to the old system in a few years, which did nothing to ease the problems of change. For another, the demonstration meant much more work: Administrative and fiscal procedures were redesigned, new budgeting systems were created, and mini-schools curriculums were established, placing greater burdens on teachers and principals. Many teachers reported they had never worked so hard and had not expected that the demonstration would require so much effort. Especially in the early stages, there was an avalanche of meetings, and many teachers felt overwhelmed and exhausted.

Thus although the working conditions of the teachers improved in some respects, in others they declined. There was more work and more worry, but no less teaching, nor more hours in the day. And while there was more money to spend on materials and resources, teachers were not paid much more for their extra duties. They received some compensation for in-service training, but it amounted to a very modest annual salary increase over the course of the demonstration. If this was an incentive, it certainly was not awfully enticing. Indeed, the whole demonstration was a ter-

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rible tease: It offered some opportunities and encouragements to teachers, but made only marginal allowances for the personal and professional sacrifices involved.

It was no surprise, then, that as the demonstration progressed energy flagged. Teachers had less time for meetings, less patience for the demands of innovation, less desire for the rigors of collaboration, and more appreciation of the lives they could once again lead separately and individually behind classroom doors. Because the voucher demonstration offered some encouragements for innovation, and because many professionals desired change, things began with energy, hasty improvisation, and excitement. But because the scheme had not been designed with much appreciation of the classroom experience of teachers—because it assumed that teachers should be reshaped by a stiff dose of competition—there were only partial and sometimes accidental incentives for professionals. As the demonstration moves toward a close, many innovations have begun to slip away.

Confusing symptoms with causes

One lesson of the voucher saga seems to be that if parent choice and educational alternatives make sense for public schools, it is not for the reasons contemplated by the reformers. The assumption underlying the original scheme was that schools were bad because parents were powerless, and that parents were powerless because they had been excluded by professionals anxious to protect themselves from popular control. If parents had more power—which in this case was to be gained by control of school funding—it was expected that professionals would then be accountable and that schools would thereby be better places for children. But when some barriers to parental involvement were removed, power distributions did not change appreciably.

One explanation for this may be that the existing power imbalance between parents and professionals is great enough to require even more support for parents before they can participate effectively. If this is correct, it raises questions about participatory reforms that assume that parents have been excluded and that given the opportunity to use power, they will. When they failed to, as in the case of EVAC, some observers argued that even more training, support, and professional advocacy were needed. But this argument redefines citizen participation: It no longer involves releasing the political energies of excluded citizens by providing

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greater access to power; it now consists of paying professionals to train, speak for, and support citizens. This view seems both plausible and puzzling. One is not sure whether to agree because implementation was only partial, to wonder why a larger dose would do more when a partial dose failed to help much at all, or to marvel at the need for even more professional help in the effort to overcome professional power.

The chief defect of this analysis is a confusion of symptoms and causes. There are real political imbalances in the governance of American schools, which contribute to the poor performance of political reforms to increase participation. But the real imbalance is not political in origin. It results more from a social division of labor that encourages the specialization of work, the professionalization of roles, and the partitioning of authority. In advanced industrial societies this solidifies professional power in education, as well as discouraging active parental involvement. Parents used to have more to do with education simply because there often was not much formal schooling available. It was not uncommon in the 18th and early 19th centuries for children to get much of their education from a parent—or from a job, in church, in an apprenticeship, or in other informal settings.

With the rise of schooling, education increasingly became the province of trained specialists. Professionals gain economic returns, social satisfaction, personal status, individual identity, and group power from their roles. And parents, most of whom have occupations providing similar rewards, have seen their educational role narrowed and redefined. It still involves early childhood education and help with homework in the elementary grades, but increasingly centers on insuring that children receive the right professional attention.

The growth of this division of labor had political consequences. In the early and middle 19th century, when public schools began, teachers had little status and less power: They were at the mercies of their communities. But the growth of a complex industrial division of labor weakened the bonds connecting work, family, school, and community, and eroded the forces that kept teachers in a subordinate and dependent position. Gradually, teaching—like many other occupations—has gained social definition, autonomy, and political power; community power over schools has correspondingly attenuated.

Since the imbalance in school power does not have political roots, political remedies may be marginal. Vouchers turned out so

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peculiarly in Alum Rock because the scheme fundamentally misconstrued the reason that power is so lopsidedly distributed in public education. As one might expect from such a misdiagnosis, the effects of the reform were perverse: Professionals gained power from an experiment in which they were supposed to lose it. Vouchers opened the door for power shifts, but they did not affect the ways in which work, authority, and child-rearing are apportioned in society. Because social realities were undisturbed by merely loosening up the political structure, the changes only enhanced the power of those who had it already.

Given this analysis, it is not surprising that all these changes occurred with little political conflict between parents and professionals. Predictably, most of the conflict was between professionals who advocated greater parent power and professionals who did not. That, after all, is what one would expect in an "expert society." The struggles were enough to make for several lively years in this small California city, but not enough to work basic changes in the distribution of political power.

More than meets the eye

At the same time, Alum Rock parents were more satisfied with their schools. This would seem perverse if one subscribed to the theory of parent power associated with vouchers: Why should parents' satisfaction increase if their power didn't? The answer, we think, is that vouchers in Alum Rock did offer benefits many parents desired, benefits that are consistent with the existing social division of labor. One of these was a somewhat greater range of educational alternatives. Some parents have strong views on the relative importance of language and culture, or on the balance among discipline, fundamentals, and individual discovery, or on the comparative significance of algebra and art. Although the mini-schools seemed to vary little in basic instructional patterns—most teachers spent about the same proportion of their time on reading and math—they did seem to offer diverse programs, thus more nearly corresponding with varieties of educational opinion. It is hardly surprising that parents with views hitherto unrepresented in the curriculum appreciated the new alternatives. Their appreciation may have followed from the substance of the new programs—or simply from being offered a choice. But whatever the reason, the opportunity to choose seems to have been welcomed.

Another benefit of the Alum Rock demonstration was that these

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alternatives were offered by professionals. Parents had the freedom to choose from a fairly conventional range of educational possibilities, but teachers defined, devised, and implemented them. The demonstration also tended to make professionals more visible and accessible to the parents. Most important, it did all this within the limits of established roles.

This helps to explain why parents in Alum Rock were more satisfied without being more powerful: They had more alternatives and more freedom to choose, but these were provided by professionals in authoritative and familiar ways—without much work for parents.

This points to a second lesson of the demonstration: It was hard to mount a voucher test because almost everyone ignored the considerable possibilities offered teachers. Instead, vouchers were advertised as a sort of radical social surgery to improve things for students and parents at the expense of the professionals. This approach to change was certain to flop unless a substantial proportion of teachers found vouchers attractive. But the project was promoted in such a way as to suggest that vouchers would punish professionals into better performance. So it is not surprising that OEO found few volunteers for a demonstration, or that professionals in Alum Rock responded with such caution. One political consequence of the social division of labor in advanced industrial societies is that the reform of social services is unlikely to succeed unless many professionals find it attractive. Because vouchers presented a rather threatening prospect, they had few takers.

The third lesson of the Alum Rock venture is that, ironically, there is more in the idea of choice for parents and professionals than the advertising suggested. Many teachers are strongly attracted by the prospect of choosing the sort of classroom they would work in, of shaping the curriculum they would use, and of working with students who find their style attractive. There is some evidence that when teachers exercise such choices—when they are able to create alternatives within the public schools—both parents and professionals are pleased with the results. Such efforts are underway in some cities (among them, Minneapolis and Cincinnati) and the reports seem encouraging. These professionally defined alternatives embody most of the main currents of thought about schooling and offer many of the specializations families desire—science, the arts, culture and language, and so on. If the voucher reform had been conceived and promoted differently, it might have met with somewhat greater enthusiasm among professionals.

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Evaluating the scheme

This hardly exhausts the lessons of the voucher story, nor does it finish the tale itself. One fascinating item concerns the effort to evaluate vouchers effectively. A major justification for the federal program in the first place was the search for scientific results to support policy decisions about whether vouchers should be expanded or discarded. Large sums of money were spent in search of the answer, but the evaluation itself seems to have played no role in decisions about the future of vouchers. Experience provided more decisive and timely evidence. But the final evaluation does offer rich testimony concerning the difficulties involved in such scientific endeavors, and it might reveal something about their potential usefulness.

Similarly, there is still a question about the impact of the voucher program beyond Alum Rock. OEO and NIE tried to organize demonstrations in school districts all over the country; although all but one of these failed, promoting vouchers may have stimulated other efforts to increase choice and diversity. The prospect of government support for private schools may have stimulated attempts to promote diversity within the public schools, to show that alternatives were possible without resorting to nonpublic education. And all the publicity from Washington during the last five or six years may well have helped to legitimize diversity and choice, and create a climate of opinion in which they are more possible. It would be ironic if the primary impact of federal efforts to promote vouchers was indirect, but it would not be the first time in the history of social reform that unintended results were so significant.

Nor has this article fully probed some of the more programmatic issues raised by the voucher saga—for example, the federal role in school reform. There is certainly a need for reflection concerning how federal agencies might deal with reforms like vouchers that have more appeal than support. And what of the broader implications for participatory reforms? If, as we have argued, the sorts of participation most parents desire are different than those advocated by reformers, one wonders whether there are better ways to redress the imbalance of political power in education.

These and other questions are important, but must wait for a more detailed treatment of this fascinating episode in school reform. For now, it is enough to note that this scheme to promote parent power produced mixed results, and that several views are plausible. As an effort to reform the nation's schools, the voucher

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demonstration left much to be desired; it was an administrator's innovation, not a popular movement. Its only resources were its appeal and the ingenuity and money its advocates could produce. These were enough to keep the advocates busy, but not enough to foment a social experiment. Vouchers were intended to overturn the political power structure in local schools and put parents in the driver's seat, but the absence of popular support meant that there was really hope for success only when the opposition—the educational establishment—also liked the idea. There was only one actual test, and even there local forces tended to overwhelm federal priorities. The moral, we suppose, is that bright ideas, advice, and federal funds are no substitute for political power. Reforms spun from such political gossamer have similarly fragile prospects.

But vouchers can also be viewed as an attempt to change the balance of power within schools, and in this regard we think they produced both more and less than expected. As nearly as can be discerned, parents in Alum Rock have little more power now than before the test. The promise of parent choice and power rather unsettled teachers and principals, who promptly took steps to protect their interests. The ensuing story was enough to bring tears of joy to the eyes of the most hardened political observers: Professionals in Alum Rock emerged with undiminished and probably increased power—all this resulting from an innovation designed to boost the political fortunes of parents at the expense of professionals. The voucher idea was simply based on a serious overestimate of popular discontent and the demand for change in education. The moral is that reforms designed to "loosen up" school systems often succeed—but with perverse political effects. This is partly because the intended victims of reforms begin with much more organization and power than the intended beneficiaries; few of the beneficiaries have the time, energy, or resources to seize the opportunities presented by the reformers. The victims naturally use their superior power and organization not just to neutralize change but also to turn it to their own advantage. Similarly, the efforts of the Ford Foundation to loosen up the schools in New York through community control enhanced the political fortunes of the United Federation of Teachers. It often helps to loosen things up, but in the ensuing looseness, those with power get more.

From the perspective of promoting diversity, the story is less gloomy: The voucher demonstration in Alum Rock increased pro-

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fessionals' ability to choose and design their work settings, and made it possible for parents to select among alternatives. If choice and diversity are good, then schools in Alum Rock were better places.

Finally, the Alum Rock demonstration has provided an opportunity to learn a good deal about the possibilities for alternative programs, as well as helpful evidence concerning the likely roles of parents and professionals. Some of these lessons may be indirect and perverse, but they are instructive nonetheless. The experience with vouchers points to some ways in which diversity in education can be further explored and encouraged, even though it suggests other ways that seem barren. If the voucher plan is narrowly assessed in terms of its assumptions about political participation and school reform, it must be judged something less than a resounding success. But viewed as an exploration of educational alternatives, it may prove a source of suggestive ideas and lessons.

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New York City's fiscal crisis: the politics of inflation and retrenchment

MARTIN SHEFTER

THE current New York City fiscal crisis is above all a political crisis. Its origins lie in a set of political changes the city experienced in the 1960's, which led municipal expenditures and indebtedness to grow at an explosive pace. And the eruption of the crisis has produced a further transformation in the structure of the city's politics.

This is not to deny that changes in the city's demographic and economic base over the past three decades have contributed to the problems the municipal government faces. The migration of more than a million poor blacks and Puerto Ricans to New York since World War II has placed pressures on the municipal budget at the same time that the movement of business firms and middle-class whites to the suburbs has reduced the city's capacity to finance new expenditures. But these developments, which are commonly cited to explain the city's difficulties, cannot in themselves account for the crisis; unemployed men and fatherless children do not, after all, have the authority to appropriate public monies or float municipal bonds. To account for the rapid growth of the municipal budget and debt, one must explain why public officials responded as they did to these changes in the city's demographic and economic base—an explana-

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tion to be found in the transformation of New York City politics in the 1960's.

During that decade, the regime that had formerly governed New York City collapsed, and a new coalition of political forces attempted to seize control. This initiated a pattern of political activity that has characteristically led to rising public expenditures and indebtedness, financial collapse, and ultimately budgetary retrenchment and a reorganization of politics, shifting the balance of power to the owners of the public debt. This pattern of political and fiscal change is not unique to New York City in the 1960's and 1970's; it has appeared both in other places and in earlier periods of the city's history.

Two routes to retrenchment

The political conditions that lead city governments to increase municipal expenditures at a rapid rate and accumulate large deficits are similar to those which encourage national governments to pursue highly inflationary fiscal and monetary policies. Such policies are likely to be adopted in the following combination of circumstances: 1) A social group that has recently gained political power begins to assert claims upon the government for greater public benefits or a larger slice of the national income; 2) the government responds to these claims either because it is allied with the group in question or because it cannot withstand its opposition; and 3) the government is too weak politically to finance these new claims by reducing the flow of benefits to other groups, or by raising taxes. To cover the difference between expenditures and revenues, both municipal and national governments can borrow money. In addition, national governments can print money—in large quantities, if necessary—to finance their deficits, and hence deficit financing on the national level can generate rampant price inflation.

These political conditions have prevailed, as the historian Charles Maier has noted, during the major episodes of national inflation in this century. The hyperinflations in Central Europe in 1919-1922, for example, followed the creation of democratic regimes in Germany and Austria, which for the first time granted representation in the government to working-class parties. These regimes, however, were threatened by anti-democratic forces on the Right and dared not alienate the nation's industrialists. The only economic policies compatible with the maintenance of a tacit coalition between labor and industry were highly inflationary: The industrialists would not tolerate any new taxes on corporate or personal incomes, and the govern-

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ment thus increasingly financed its operations by resorting to the printing presses. Similarly, in Latin America, periods of severe inflation characteristically occur after the rise of regimes that speak for the urban or rural lower classes, but—because of political weakness, administrative incapacity, or corruption—cannot collect taxes from the middle and upper classes, or prevent the wealthy from sending their money abroad, or foster economic development. The Peronist regime in Argentina, for example, sponsored the organization and political incorporation of labor, but failed to industrialize the nation and generate the wealth necessary to pay for the benefits provided its supporters. Consequently, claims to the national income that the government granted exceeded the national income, and inflation followed.

The European nations now experiencing the highest levels of inflation—Portugal and Italy—are characterized by politics most closely approximating the pattern outlined above. The Italian case is too complex to describe here, but the Portuguese situation is quite straightforward. Following the revolution of 1974, which granted the Portuguese political rights they had been unable to exercise freely for 50 years, a succession of weak governments (six in two years) either encouraged, or found it impossible to resist, the demands of the army for an immediate withdrawal from Portugal's colonies, of agricultural laborers for land, of workers and civil servants for wage increases, and of unions for greater control over factories and offices. The result was a rise in the nation's wage bill, a decline of labor and military discipline, the influx of more than half a million refugees from Angola who had to be housed and fed by the government, a rise in government deficits, and consequently an inflation rate in 1975 of 46 per cent.

The conditions fostering very high levels of inflation are inherently unstable. Double- or triple-digit inflation can lead to a credit or liquidity crisis, to balance-of-payments difficulties, and ultimately to a recession. When this occurs, industrialists become less willing to accept inflationary policies. Middle-class *rentiers*, who generally are the most seriously injured by inflation, and who find it difficult under normal circumstances to assert themselves politically against better-organized groups, can erupt into an angry political force when inflation threatens to wipe out the fruits of a lifetime of thrift. And the banks, which are in a position to extend the necessary loans for stabilizing the nation's currency and refinancing its international debt, gain enormous political leverage by their ability to attach conditions to their aid. If all these interests coalesce, they can overturn

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the government that fostered inflation, and install a government that will implement a program of retrenchment.

Retrenchment involves eliminating nonessential public expenditures. What this commonly means in practice is that those groups that have only recently gained a measure of power will be deprived of whatever benefits they won by being incorporated into the political system. For the purposes of retrenchment, these groups must either be driven off the political stage, or compelled to accept a more modest role.

Historically, the first of these alternatives is probably the more common: Retrenchment often occurs at the expense of democracy. In 1922, for example, the Austrian government received a stabilization loan from the League of Nations by agreeing in the Geneva Protocols to abrogate parliamentary authority over all financial matters for a period of two years. And the agreements that brought stability to Weimar Germany involved the overthrow of the last coalition government in which a working-class party had representation. In Latin America, typically only military governments can carry out the retrenchment policies that international lending agencies insist upon. Argentina—and Chile—provide stark examples of what the implementation of a retrenchment program can entail.

The alternative route to retrenchment involves a system of discipline imposed upon the new political group not by an alliance of domestic conservatives and foreign bankers, but rather by the leadership of the group in question. And this can lead to harsh measures. The halt to the leftward drift of Portugal's revolution and the rise to power of the moderate Socialist government of Mario Soares came only after many offices of the Portuguese Communist Party were firebombed, leftist groups in the military were smashed, the army was purged by a stern disciplinarian, General Ramilho Eanes, and the Socialists allied themselves with the two most conservative parties behind his presidential candidacy. And the success of Italy's current retrenchment program ironically depends upon the ability of a Leninist party—the Italian Communist Party—to impose its new line (the "historic compromise") upon restive party militants and compel the unions affiliated with the Communist labor federation to limit their wage demands.

Boss Tweed and Tammany Hall

New York City's budget rises and falls in response to a political logic similar to the one outlined above. Periods of increased public

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expenditures and indebtedness follow upon the rise to power of new but loosely organized political coalitions, and periods of retrenchment are associated with the expulsion of these new forces from the political arena, or their subjugation to tighter political discipline.

In New York City, these new political forces have generally been coalitions of elements of the city's business community and members of ethnic groups that had previously been politically weak. Such political coalitions have traditionally been pieced together by machine politicians, who placed new ethnic groups on the public payroll to win their votes, and at the same time sponsored the public projects favored by their allies in the business community. This method of purchasing political support can be costly. On three occasions in the city's history—in 1871, 1933, and 1975—it has led to a fiscal crisis that enabled the banks owning the city's debt to insist that municipal expenditures be drastically reduced as part of a bailout plan. The politicians in office when the city amassed its debt are then discredited by their responsibility for the city's difficulties, and weakened by the retrenchment program; this in turn permits the political agents of the bankers to call themselves reformers and win the next election. This experience chastens the defeated political forces, and enables a more sober leadership to emerge among them. It also gives the new leaders an incentive to organize their followers more tightly, and upon returning to power they can be less generous in dealing with their rank-and-file supporters, and more accommodating in dealing with their erstwhile opponents.

The rise and fall of the Tweed Ring illustrates this process quite clearly. Boss Tweed was allied with businessmen who operated chiefly in local markets—building contractors, real-estate men, street-railway promoters, savings bank owners, and manufacturers, who benefited from Tweed's ambitious program of opening up new streets and transit lines in the northern sections of the city. Uptown development had previously proceeded slowly; city officials had been more responsive to the elite merchants and bankers operating in national and international markets—interests that were oriented to the downtown district and the port, and that regarded as utterly profligate uptown development on the scale proposed by Tweed.

Tweed also sponsored the political incorporation of the immigrant Irish. In the three weeks prior to the election of 1868, the judges allied with the Tweed Ring naturalized several thousand new citizens, and expanded the number of registered voters in the city by more than 30 per cent. The attachment of these new voters to the Tammany organization was reinforced through placing many on the

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public payroll, and through a public-welfare program that bore some marked similarities to the poverty programs of the 1960's. (The poverty programs funneled public monies into community groups and Baptist churches in black neighborhoods; Boss Tweed's public-welfare program channeled public funds into charitable institutions and Catholic churches in Irish neighborhoods.)

The cost of bringing the local businesses and the immigrants into the political system was high. The budget of the Streets Department, for example, quadrupled in Tweed's first years as Deputy Commissioner. It was especially high because the Ring was structurally weak. Tweed was unable to command the obedience of other politicians; instead, he was compelled to purchase with cash bribes the support of state legislators, county supervisors, and even his immediate associates. To finance its operations, the Ring levied a surcharge on all city contracts. And because the Ring was weak, Tweed hesitated to raise taxes sufficiently to meet the city's current expenses, let alone to cover the costs of the capital improvements he sponsored. Just as Mayors Lindsay and Beame were to do a century later, Tweed funded short-term revenue notes into long-term bonds. In the last four years of Ring rule in New York, the city's outstanding indebtedness tripled.

The Ring was brought down by the city's creditors, who were driven to act by two events that destroyed their tolerance for a regime based upon the two groups from which Tweed drew his support. The first was the Orange Riot of July 1871, sparked by a parade of Irish Protestants celebrating the Catholic defeat at the Battle of the Boyne. Catholic spectators threw stones at the troops protecting the marchers, and the troops responded with a volley of gunfire that killed 37 spectators. The press blamed the city government for provoking the disturbance, and respectable elements in New York concluded from the incident that a municipal government dependent upon the political support of the Irish could not preserve public order. The second event that led the city's financial elite to move against the Ring was the suspension of trading in New York City bonds on the Berlin Stock Exchange, and the refusal of bankers in London, Paris, and Frankfurt to extend any more loans to the city, after a series of exposés in the press revealed the extent of municipal corruption and the size of the city's debt. The collapse of the city's credit threatened the solvency of all the New York banks owning municipal securities. To protect itself, the city's financial community felt it imperative that the Ring be overthrown. This was accomplished, in the words of a contemporary pamphlet,

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through an "insurrection of the capitalists": A group of the city's most prominent businessmen, the Committee of 70, organized a tax strike, and a thousand property owners refused to pay their municipal taxes until the city's accounts were audited. In addition, the city's bankers refused to lend the municipal government the money needed to meet the city payroll and cover debt-service payments until a reformer, Andrew Haswell Green, was appointed Deputy Comptroller with absolute authority over the city's finances. The *coup de grâce* was given the Tweed Ring when the Committee of 70 entered a slate of candidates in the 1871 municipal elections and won control of the city government.

The collapse of the Tweed Ring enabled "Honest John" Kelly, in alliance with a group of wealthy, nationally oriented Democrats, to seize control of Tammany Hall. Kelly inferred from the Tweed episode that Tammany could not survive if all elements of the business community united against it, and that to avoid such opposition it must shed its reputation for corruption and profligacy. He accomplished this by purging Tammany of its more disreputable elements and by centralizing and strengthening the party organization. (It has been said that Kelly "found Tammany a horde and left it an army.") Kelly then used this organization to elect a succession of respectable merchants to the mayoralty, discipline lower-level Tammany officials engaged in the grosser forms of corruption, and make himself Comptroller, in which position he pursued an extremely tight-fisted policy of retrenchment.

By creating the modern Tammany machine, Kelly and his successors, Richard Croker and Charles Murphy, established a mechanism for incorporating immigrants into the city's political system in a way that was tolerable to, if not entirely to the liking of, the city's propertied elite. This involved extruding from the political system competing contenders for control over the city's immigrant masses. Kelly's victory represented the triumph of a respectable lower-middle-class leadership group among the Irish (Kelly himself was married to a niece of Cardinal McCloskey), and the maintenance of this group's control entailed the defeat of both the lower-class gangs that had formerly played an important role within Tammany, and the trade-union and socialist movements that at various times (most notably the 1880's and the 1910's) had attempted to assume political leadership of the working classes.

The preservation of Tammany's hegemony, however, required that the machine's subordinate functionaries be tightly disciplined, and that new ethnic groups be given a share of the spoils. When

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the hold of the machine's central leadership weakened, as it increasingly did after Murphy's death in 1925, Tammany officials were free to enrich themselves without limit, and to freeze out newcomers. The bacchanalia of corruption during the administration of Jimmy Walker, and the inability of Tammany's fragmented leadership to face up to, or impose upon their subordinates, the stringencies that the Depression required, set the stage for the New York fiscal crisis of 1933, and the triumph in the municipal election that year of a coalition of reformers, businessmen, Italians, and Jews, under the leadership of Fiorello LaGuardia.

From accommodation to community participation

The last political leaders in New York to successfully pursue Kelly's strategy were Carmine DeSapio, Alex Rose, and Robert Wagner. These leaders won a secure position for Italians and Jews in New York politics by helping to expel from the political system those elements of their ethnic constituency who were least acceptable to other groups in the city. DeSapio consolidated his hold over the Democratic Party by purging Tammany of its gangster element, which was primarily Italian, but included Jewish district leaders such as Sidney Moses and Harry Brickman. Rose established the influence of the Liberal Party by destroying the Communist-dominated American Labor Party, which was heavily Jewish, although its most prominent ally was the Italian-American Congressman Vito Marcantonio. Both DeSapio and Rose created tightly centralized party organizations, and when they united behind the same candidates, municipal elections involved as little competition as they had during the heyday of machine rule in the 1920's. In the mayoral race of 1957, Robert Wagner, who had the support of both organizations, won 72 per cent of the vote and defeated his Republican opponent by almost one million votes.

The politicians who governed the city during the 1950's defused opposition by accommodating its major organized interests. The downtown business community was satisfied because control over the development programs that were of prime interest to them was placed in the hands of Robert Moses and/or various public authorities responsible only to their bondholders. Municipal civil servants and the prestigious civic associations were granted substantial influence over the city's major service-delivery agencies. And in making revenue and expenditure decisions, elected officials paid special heed to the views of the city's tax-conscious lower-middle-

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class homeowners. Consequently, during Mayor Wagner's first two terms, the city government did little that aroused controversy, and its expense budget increased at an average annual rate of only 6.6 per cent between 1953 and 1960.

This political calm was shattered in the late 1950's and early 1960's by the emergence of three new political groups in New York —the Democratic reform movement, the school-integration movement, and the movement to unionize city employees. The effort of politicians to gain power in the city by allying with these movements destroyed the regime constructed by DeSapio, Rose, and Wagner, and initiated the present era of budgetary inflation.

The first of these to gather force was the reform movement in the Democratic Party. In the face of its threat, Mayor Wagner undertook to salvage his career in 1961 by turning on his political mentor, DeSapio, and seeking renomination with the support of the reformers and the municipal civil service. The steps Wagner took to win their backing—especially his sponsorship of a new city charter—weakened the regular party organizations, loosened some of the restraints upon budgetary inflation in New York, and made him more dependent politically upon groups demanding services. Consequently, municipal expenditures increased during Wagner's third term at an average annual rate of 8.9 per cent. Significantly, in 1961 the city's expense budget fell into deficit for the first time since the Depression, and it continued to do so during each year of Wagner's third term.

In 1965, the reformers and liberals abandoned their former allies in the municipal labor movement, and supported the mayoral candidacy of John Lindsay. The political forces backing Lindsay sought to drive the civil-service unions from power and seize control of the municipal bureaucracy themselves. Lindsay centered his 1965 campaign around an attack upon the "power brokers" (i.e., the civil-service union leaders); he undertook to reorganize the municipal bureaucracy into 10 super-agencies, which would be responsive to his leadership; and he regularly contracted with outside institutions (such as the RAND Corporation, the Ford Foundation, and various universities) to perform tasks formerly conducted by municipal civil servants. To gain political support, the Lindsay administration allied itself with the third new political movement of the 1960's, the black civil-rights movement. Blacks were useful allies because they could be used to legitimize the administration's efforts to seize control of the bureaucracy, which was criticized for its failure to adopt "innovative" programs that were "responsive" to the needs of the

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black community. And the alliance Lindsay cultivated with blacks provided the administration with shock troops to attack the bureaucracy from below, a function served by the mechanisms of community participation established by the administration.

New York City's budget during the early Lindsay years reflected this political strategy and the political constituency of the administration. The three major municipal programs in which expenditures rose the most rapidly during the period 1966-1971 were higher education (251 per cent), welfare (225 per cent), and hospitals (123 per cent). The clientele of two of these programs (welfare and public hospitals) is predominantly black, and the explosion in expenditures for the third (higher education) occurred after the enactment of an open-admissions program that tripled black enrollments at the City University. Moreover, the staff providing services in each of these programs (whose salaries account for much of the increase in expenditures) is composed of large numbers of highly educated and well-paid professionals. To be sure, federal and state assistance under Aid to Families with Dependent Children and Medicaid helped the city pay for some of these new expenditures. But even as far as the city's own funds (so-called tax-levy expenditures) were concerned, welfare and higher education were by far the fastest-growing budgetary categories during the first five years of the Lindsay administration.

The Lindsay administration was not in a position to finance the benefits it provided to its constituency by reducing, or even holding the line on, expenditures for other municipal programs, because Lindsay's victory in the mayoral election of 1965 did not destroy the influence of the unions that represented the employees of the more traditional municipal agencies. After Lindsay's election, the city-employee unions might no longer have had an ally in the mayor's office, but they retained their capacity to strike, to lobby before the state legislature, and to support or oppose candidates in future municipal elections. By the end of his first term, the mayor discovered how vulnerable he was to each of these maneuvers. He initially attempted to break the power of the unions by refusing to enter into the give-and-take of labor negotiations, by inviting strikes, and by then seeking to mobilize public opinion (and, in one instance, the national guard) against the unions. These efforts repeatedly failed, and Lindsay eventually learned that he could not govern the city without the cooperation of the unions. In addition to the wage increases they obtained by striking, the unions were able to secure very lucrative retirement benefits from the state legisla-

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ture during the Lindsay years, because as the regular party organizations in New York grew weaker, many state assemblymen and senators from the city found the civil-service unions to be their most effective source of campaign assistance.

Finally, Lindsay himself was desperately in need of such assistance in his campaign for reelection in 1969. To win union support and to pay off his campaign debt, he gave the unions everything they demanded during the 1969-70 round of contract negotiations. In these ways, the civil-service unions were able to secure substantial salary and benefit increases for city employees during his tenure, thereby compelling the mayor to increase expenditures for the agencies employing their members. During the period 1966-1971, the budgets of the traditional municipal departments—Police, Fire, Sanitation, the Board of Education—did not double or triple, as expenditures did for welfare, hospitals, and higher education, but they nonetheless did increase on the average by 66 per cent.

Setting the stage for financial ruin

The Lindsay administration did not find it politically possible to obtain either enough additional state aid or enough additional taxing authority to finance all these expenditure increases. Although state aid payments to the city did rise substantially during the Lindsay years, there were limits to the willingness of upstate and suburban legislators to tax their constituents for the benefit of New York City. And the state legislature, when it considered New York City financial legislation, followed a set of informal procedures that enabled political forces unfriendly to Lindsay to block some of his proposals for tax increases, and that favored the passage of legislation authorizing the city to borrow money to close its annual budget gap.

The Republican and Democratic leaders in the Assembly and Senate would round up the votes necessary to pass New York City financial legislation only if every single assemblyman and senator from the city voted in favor of the bills in question. In practice, this informal requirement for unanimous consent meant that these bills had to meet with the approval of each of the major interests enjoying access to the city's legislative delegation, the legislative leaders, and the governor. One such group was the lower-middle-income homeowners, who were unable to defeat Lindsay in mayoral elections, but did send Republican assemblymen and senators to Albany to defend their interests. These legislators found it po-

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litically difficult to vote for tax increases, and to avoid losing their votes, the mayor and governor found it necessary to substitute bond and note issues. The city's major banks, whose views were represented in such deliberations by the governor, were quite happy to endorse deficit financing, because bond and note issues provided them with healthy commissions and good investment opportunities. Moreover, so long as the office boom of the 1960's continued—assisted by capital projects the city and state constructed with borrowed funds—it appeared that rising municipal tax receipts would enable the city to cover its debt-service payments.

The Lindsay administration was ultimately compelled to abandon its efforts to break the power of the public-employee unions, to seize control of the municipal bureaucracy, and to use the authority of the city government for new purposes. These efforts suffered a number of serious setbacks at the end of the mayor's first term and the beginning of his second. Lindsay's efforts to decentralize the city school system precipitated a bitter controversy and a teachers' strike—the Ocean Hill strike of 1968—and the settlement of the controversy was something of a defeat for the most militant advocates of community control. The upper-middle-class liberals and blacks who comprised the core of the Lindsay coalition were unable on their own to provide him with the votes he needed to win reelection in 1969, and Lindsay was consequently compelled to come to terms with the civil-service unions. And the administration's plans to place a large, low-income housing project in the middle-class neighborhood of Forest Hills in 1971 generated intense local opposition, and had to be drastically scaled down.

The defeat at Forest Hills chastened Lindsay, and the growth rate of the city's budget slowed considerably. From 1966 through 1971, operating expenditures had increased at an average annual rate of 16.5 per cent. In 1972, the growth rate of the city's budget declined to 8.6 per cent; in 1973 it was 9.3 per cent. Moreover, much of this budgetary growth resulted from rising prices, and the deceleration of the city's budget after the Lindsay administration had received its political chastening is thus particularly dramatic when measured in constant dollars: Annual expenditure increases in constant dollars averaged 11.5 per cent from 1966 through 1971; they averaged 3.7 per cent in the next two years. Abe Beame's election as mayor in 1973 simply confirmed that a new political and fiscal plateau had been reached. Mayor Beame's budgets, again measured in constant dollars, grew at an average annual rate of only 2.8 per cent.

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This new political and fiscal plateau did not involve a return to the *status quo ante* of 1965. The new players in the political game, who had been ushered onto the field by John Lindsay, were not expelled—apart from a few unruly ones who had attempted to drive out some of the older players. And the claims of these new players to a share of the gate were recognized. Consequently, as Mayor Lindsay left office and Mayor Beame came in, the city's budget was more than three times as large as it had been at the close of the Wagner administration.

In the mid-1970's, however, it was far more difficult than it had been in the late 1960's for New York City to honor the claims upon its budget granted during the Lindsay administration. Inflation drove up the cost of providing a fixed bundle of municipal services, and the failure of the city's economy to recover from the recession of the early 1970's made it increasingly difficult for New York to cover these rising costs. Moreover, by the mid-1970's there was an explosion in the costs of the retirement benefits that the municipal government and the state legislature had granted to city employees during the previous decade. In 1965, the city's retirement costs had been $364 million; by 1974, they had risen to $1.121 billion, and in 1976 they were $1.480 billion. In 1965, the city's annual debt-service payments had been $470 million; by 1974, they had risen to $1.269 billion, and in two more years they reached $2.304 billion. In order to close the gap between current expenditures and current revenues, and refinance the short-term debt as it fell due, the city resorted ever more heavily to borrowing. By 1975, the city's cumulative short-term debt had risen to $5.3 billion. The budget Mayor Beame initially presented to the state legislature for fiscal year 1976 anticipated a further deficit of $460 million, and had the city been able to borrow all that it wanted in 1975, its short-term debt might have amounted to as much as 33 per cent of the entire outstanding short-term municipal debt in the United States! The city's request for huge grants and additional taxing authority from the state legislature, and its enormous demands upon the municipal-securities market for additional loans, set the stage for the New York fiscal crisis of 1975.

The rise of the banks

The fiscal crisis of 1975 was precipitated by a combination of events resembling the taxpayers' strike and bondholders' coup that had brought down Tweed a century earlier. The Republican state

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senators from New York City banded together in May 1975, and agreed to present a common front against the pressure from their party leaders and colleagues to vote for legislation granting additional taxing authority to the city. The refusal of these spokesmen for the city's taxpayers to consent to any new taxes increased the city's demand for credit, and thereby weakened the market for New York City securities. Later that month, the major New York banks refused to underwrite or purchase any more New York City notes and bonds, and thereby drove the city to the verge of bankruptcy.

There is little reason to believe that the Republican legislators and the New York bankers foresaw the enormous consequences their actions would have, or that in precipitating the crisis they were motivated by anything beyond the desire to protect the short-run economic interests of the groups they represented and their own short-run political and institutional interests. As for the Republican state legislators, they were heavily dependent upon the support of small-property owners, who were being squeezed by the combination of inflation, recession, high levels of taxation, and rent control in New York, and were increasingly voting on the Conservative Party line. Moreover, in 1975 the governor's office was occupied by a Democrat for the first time in 16 years and hence Republican legislators no longer had a compelling reason to support a tax package hammered out in negotiations between the governor and the mayor.

As for the major New York banks, there were a number of strictly economic reasons why they were becoming increasingly reluctant to purchase the city's securities. Other more lucrative investment opportunities (foreign loans, leasing, consumer financing) had recently been developed by the banks, or had been made available to them by amendments to the Bank Holding Company Act, and the failure of the Real Estate Investment Trusts had created liquidity problems for many of them. But most importantly, as the city's short-term debt began to skyrocket, it was becoming increasingly clear to outsiders as well as insiders that the city was engaged in a great ponzi game: It was financing current expenditures by borrowing, and paying off old debt by issuing new debt. So long as dealing in New York municipal securities had been a high-profit, low-risk venture for the city's banks, they had been quite happy to participate without asking too many embarrassing questions of city officials. But when the 11 major New York banks realized in the spring of 1975 that the outside world would shortly be able to figure out what the municipal government had been doing, they unloaded $2.7 billion in New York City securities that they owned.

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With the banks flooding the market with old New York bonds at the same time the city was seeking to sell additional hundreds of millions in new municipal notes and bonds, the market in the city's securities collapsed.

This collapse confronted the banks with immediate and grave dangers. Unless the city could borrow additional money, it could not redeem its old notes and bonds as they fell due, and if the city defaulted on these obligations, the value of New York securities remaining in the banks' portfolios would plummet. If this occurred, not only would the banks suffer a direct loss, they also could be sued by the clients whose money they had invested in New York notes and bonds. Thus the major New York banks sought desperately to keep the city from defaulting: They pleaded with out-of-town banks to purchase New York securities; when that failed, they pleaded with the federal government to guarantee the city's bonds. Indeed, the very desperation of the banks made it possible for the architects of the plan that bailed out New York to squeeze additional loans out of the banks to shore up the city's finances.

In addition to these short-run economic dangers, the fiscal crisis presented the banks with long-run political opportunities. It has enabled the banks (and, more generally, the city's corporate elite) to gain a dominant voice in municipal affairs. Some of this influence rests upon the ability of the banks to extract concessions from the city government in return for lending it money. But the banks have actually lent the city less money than either the municipal-employee pension funds or the federal government. The major reason the banks have become so influential lies instead in the following combination of circumstances. First, the city must be able to regain access to the municipal credit market, unless some other means of managing its cash flow, financing capital projects, and discharging its outstanding debts becomes available. Second, the city has no chance whatever of regaining access unless its most prominent bankers and business leaders are prepared to assert that they are satisfied it is managing its affairs in a prudent and economical fashion. Third, public officials at the municipal, state, and national levels have accepted the banks' claim that if the business community's retrenchment program is adopted, the market *will* reopen to the city —in other words, that enactment of the retrechment program is sufficient, as well as necessary, for the city to regain access to the market. This claim is, to say the least, highly conjectural.

In the name of making New York bonds marketable, the banks have managed to extract enormous concessions from the city. In

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the process, the local business elite has come to play a larger and larger role in governing the city, and the conduct of public policy in New York has increasingly come to reflect the priorities of the business community. The state initially created a Stabilization Reserve Corporation (SRC) to market a new series of bonds for the city, and it specifically set aside the proceeds of certain city taxes to cover the debt-service payments on these bonds. When these bonds failed to sell, a new state-appointed board, the Municipal Assistance Corporation (MAC), was created to replace SRC. In addition to being granted the authority to issue bonds and use municipal tax revenues for debt service on these securities, MAC was given the power to revamp New York City's accounting system. When the MAC bonds also failed to sell, the state, at the urging of the banks, passed a statute requiring the city to balance its budget within three years and limit its annual expenditure increases to not more than two per cent during that period, and creating an Emergency Financial Control Board (EFCB) empowered to freeze the wages of city employees, approve all city contracts, and supervise city finances.

The EFCB is composed of two state officials (the governor and state comptroller), two city officials (the mayor and city comptroller), and three private citizens appointed by the governor. The governor resisted pressure to appoint a labor and a minority representative, and selected instead the top executives of the New York Telephone Company, American Airlines, and Colt Industries. In addition, the mayor—at the urging of the business community—established the Mayor's Committee on Management Survey, chaired by the president of the Metropolitan Life Insurance Company, to reorganize the municipal bureaucracy along business lines. And in response to pressure from the banks, the mayor fired one of his oldest associates as First Deputy Mayor, and appointed prominent business executives to three of the most important financial and managerial positions in the city government: Deputy Mayor for City Finances, Budget Director, and Director of Operations. Just as the New York banks in 1871 were able to install their man, Andrew H. Green, as Deputy Comptroller, thereby gaining control of the city's finances, the leaders of the New York financial and business community over the last two years have been able to install their representatives in key positions, thereby gaining effective control over the city government today.

These spokesmen for the city's business community have argued, with considerable justification, that New York has little alternative

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but to close the gap between expenditures and revenues by reducing expenditures. Tax increases would encourage more employers and taxpayers to leave the city, thus exacerbating New York's economic and fiscal problems. Among the city's expenditures, however, two categories have been the particular targets of New York's fiscal overseers. The first are labor costs. In response to pressure from MAC and the EFCB, the city instituted a wage freeze and eliminated 56,000 employees from its payroll. This represents a 19-percent reduction in the city's labor force. The second are programs with predominantly black clienteles—youth services, addiction services, compensatory higher education—which have suffered disproportionately severe budget and personnel cutbacks. Moreover, personnel have been fired in disproportionate numbers from job categories—clerical, paraprofessional, and maintenance—heavily staffed by blacks and Puerto Ricans. Consequently, between July 1974 and February 1976, the number of Hispanics employed by mayoral agencies declined by 51 per cent, and the number of black males declined by 40 per cent. What retrenchment has meant in practice is that the city has curtailed the benefits it provides to two of the groups—civil servants and blacks—that had gained a measure of political power in the 1960's.

The fall of the blacks and the unions

Squeezing out the blacks has been a rather simple matter. Black leaders had mobilized their constituency in the 1960's by relying upon the resources provided by federal and local agencies, and by drawing upon the publicity and support of the press, national foundations, and universities. In the early 1970's, however, the Nixon Administration turned sharply to the right, and federal expenditures for community organization were cut drastically. At about the same time, the Lindsay administration abandoned its mobilization strategy, and the various institutions in the not-for-profit sector committed wholeheartedly to social activism in the 1960's felt the pinch of a declining stock market and reduced federal social expenditures, and became far less aggressive politically. Finally, upper-middle-class youths, who had provided much of the manpower for community organization drives in the 1960's, turned to other causes in the following decade: environmentalism, consumerism, feminism, or simply careerism. The New York fiscal crisis represents the culmination of this trend: Blacks have simply been abandoned by their erstwhile supporters. It appears that the upper-middle classes, who

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in the flush 1960's saw blacks as useful allies in the drive to extend their influence over municipal government, have concluded in the harsher climate of the 1970's that their political interests can better be served by entering into an alliance with the banks. The *New York Times,* for example, has uncritically accepted the most questionable assumption underlying the retrenchment program advocated by the city's business leadership—the notion that retrenchment will restore the city's access to the capital market—and it now attacks the civil service not in the name of responsiveness and innovation, but rather in the name of economy and productivity.

It has been a far more troublesome problem to deprive the city employees of the gains they achieved in the late 1960's and early 1970's, because city employees are far better organized than blacks, and their power is less dependent upon the steadfastness of their allies. Nonetheless, the civil-service unions have been compelled to accept a wage freeze, layoffs, longer hours, and heavier workloads. In addition, they have been induced to invest (or to commit themselves to invest) some $3.7 billion of their pension-fund assets in New York City and MAC bonds. Indeed, since the onset of the fiscal crisis, the tables have been entirely turned in municipal labor relations. No longer do the unions and the city bargain to determine which of the unions' demands the city will accede to; now the question has become which of the city's demands the unions will accede to. How has this been accomplished?

In an immediate sense, the tables were turned by the state's Financial Emergency Act, which granted the EFCB the power to review—and to reject—municipal labor contracts. But one must ask why the unions have agreed to play by these new rules, instead of striking to obtain higher wages. The most direct explanation for the unions' meekness is that strikes would almost certainly fail. New York City's creditors and potential creditors regard the wage freeze as the acid test of whether public officials in New York are prepared to mend their ways. Were city and state officials to bow to the demands of a striking union, the city's present and future sources of credit would dry up. If the unions were to strike nonetheless—in an effort to compel the mayor and governor to choose between losing access to credit once the city's current cash balance was depleted, and an immediate and total disruption of municipal services—the mayor and governor would probably take the latter. The success of a strike ultimately depends upon public tolerance—or more concretely, whether the public will countenance the use of the national guard to perform the functions of striking workers.

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Mayor Lindsay floated the idea of using the national guard during the 1968 sanitation strike, and quickly discovered that it was totally outside the realm of political possibility at that time. It is a measure of how dramatically New York politics have been transformed since the fiscal crisis that the municipal unions dare not tempt the mayor to make such a proposal today.

Another reason for the remarkable restraint of the unions during the crisis is that they have an enormous stake in the city's fiscal viability. Bankruptcy would cause the value of the New York City and MAC bonds owned by the union pension funds to plummet. More importantly still, bankruptcy would throw the city into the hands of a receiver with the unilateral authority to abrogate union contracts, slash wages, order wholesale firings, and reduce pension benefits. This would mean the end of collective bargaining and would threaten the very existence of the unions. To avoid these dangers, municipal union leaders have undertaken the task of selling the retrenchment program to their members, convincing them that they have no alternative but to bear with it. And by doing this, they have made it unnecessary for the bankers and business leaders to rely upon harsher measures to implement the program. In this respect, since the fiscal crisis the municipal labor leaders have played a role in New York politics similar to that played by John Kelly after the overthrow of Tweed: They have assumed the job of disciplining the municipal labor force, just as Kelly imposed a system of discipline upon the ward heelers in Tammany. In praising Victor Gottbaum for being "responsible" in urging his members to bear with the wage freeze, the editorial writers for the *New York Times* were saying in 1975 precisely what the editor of the *Commercial Advertiser* said a century ago of Kelly, in somewhat more forthright terms: "Kelly has ruled the fierce Democracy in such a manner that life and property are comparatively safe . . . It requires a great man to stand between the City Treasury and this most dangerous mass . . . Dethrone Kelly and where is the man to succeed him?"

Sources of instability

There are, then, some striking similarities between the financial and political developments in New York since the fiscal crisis of 1975, and those in the aftermath of Tweed's downfall a century ago. In each case, municipal expenditures exceeded municipal revenues, and the city was compelled to bring the two into line by

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reducing its expenditures. Retrenchment has involved a reduction in the flow of benefits to groups that had recently acquired political power, which in turn means that the members of these groups must endure a new and more stringent fiscal and political order. This process of financial and political contraction has been accomplished, in part at least, with the cooperation of leaders from the very groups that are being compelled to lower their sights and accept the harsher discipline of the new order.

The parallel is not perfect, however. The most obvious difference is that blacks and Puerto Ricans have thus far been less successful in defending their economic and political gains than the Irish were under Kelly, or for that matter, than the civil-service unions have been during the present crisis. Another difference is that the regime currently governing the city is less tightly organized, centralized, and broadly based than the Tammany of Kelly, Croker, and Murphy. Consequently, no single organization today is capable of subjecting both the electorate and public officials to its discipline. And for these reasons, the *modus vivendi* that has emerged among the major actors in New York politics in the present crisis is not entirely stable.

The structural weakness of the present New York regime, and the substantial exclusion of blacks from it, could lead to the collapse of the entire set of accommodations sustaining the retrenchment program so far. One potential threat to the success of the current retrenchment program arises from the weakness and lack of discipline of some of the city's public-employee unions. If the leaders of a union are to risk negotiating a contract that reduces their members' benefits, they must be politically secure; if they are to get their members to approve such a contract, the union must be organizationally strong. Victor Gottbaum and the union organization he leads (the State, County, and Municipal Employees) may well be strong enough to impose discipline upon its rank-and-file, but some of his colleagues in the municipal labor movement are not so well situated. The leadership of the Patrolman's Benevolent Association (PBA), in particular, is very insecure, and the union itself is highly factionalized and quite weak. It is not surprising, therefore, that two successive PBA presidents, Ken McFeely and Douglas Weaving, refused to agree to the wage freeze, and were reluctant to negotiate a contract that—in the city's judgment, at least—stayed within the EFCB's guidelines. When Weaving finally did hammer out an agreement with the city's negotiators, it was rejected by the union's delegate assembly, and bands of policemen,

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encouraged by Weaving's political opponents within the union, staged a series of protests and demonstrations. Unable to mediate successfully between his members and the EFCB, Weaving resigned, as McFeely had before him. The refusal or inability of any one union to accept wage restraints, of course, makes it more difficult for the other unions to do so.

The very fact that New York City employees are represented by a number of independent unions is another potential source of instability: Each union can attempt to exploit its peculiar advantages, and pass the burdens of moderation on to the other unions. On a number of occasions the United Federation of Teachers (UFT) has sought to do exactly this. The UFT is probably the most politically powerful of the city-employee unions, because it can both draw upon its own resources and count on other groups to rally to the cause of education. Thus the UFT relied on its strength in the state legislature to secure passage of the Stavinsky-Goodman bill in the spring of 1976, which directed the mayor to restore $150 million of the funds he had cut from the Board of Education's budget. And the UFT has been the only civil-service union to stage a strike during the first two years of the financial crisis. The contract settlement that ended the brief teachers' strike in September 1975 provided salary increases for senior teachers, which the Board of Education financed by reducing the length of the school day and by failing to rehire any of the teachers laid off earlier. In all probability, when the UFT and the Board agreed to this contract, they anticipated that they would be able, with the support of aroused parents' groups, to pressure the mayor into giving the schools enough money to rehire teachers and restore the full school day.

The Stavisky-Goodman bill and the 1975 UFT contract indicate other tensions that can undermine the retrenchment program—those between the handful of officials in New York directly responsible for the city's finances and the hundreds of officials in legislative and administrative positions without such a responsibility. The overriding concern of the mayor and comptroller of New York City, and the governor and comptroller of New York State, is what might be termed the "cash-flow imperative." The city simply must have cash on hand to pay its bills when they fall due—especially to meet its payroll and debt-service obligations—if the government of the city is not to grind to a halt. The cash-flow imperative is the central preoccupation of these four officials, because they bear the ultimate responsibility for the day-to-day administration of the city's affairs, and for obtaining the loans the city needs to continue operating.

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This is a less immediate concern to city and state legislators, and to administrative officials who are only responsible for spending money but not raising it. And because politicians in New York today (in contrast to the situation during the heyday of Tammany rule) are independent political operators who are not subject to the discipline of a common party organization, the mayor and governor have found it difficult to compel other officials to pay heed to the imperatives imposed upon the city by the capital market.

The inability of the mayor and the governor to control other politicians provides groups demanding services with the opportunity to get their way by mobilizing other public officials against them. The Stavisky-Goodman bill, for example, was strenuously opposed in the name of fiscal responsibility by Mayor Beame and Governor Carey—both of whom, it should be noted, are moderately liberal Democrats. Nonetheless, the UFT and its allies were able to secure overwhelming majorities in the State Assembly and Senate to pass the bill—even though the governor had vetoed it, the legislature had not overridden a gubernatorial veto in more than 100 years, and one house of the legislature was controlled by moderately conservative Republicans. The UFT was also able to pressure the EFCB into approving its labor contract, although questions had been raised by the EFCB staff about whether the contract was consistent with the wage freeze, by getting the two United States Senators from New York to urge ratification in public testimony before the Board. Likewise, the Board of Higher Education and the Health and Hospitals Corporation, which as quasi-independent agencies have somewhat more leeway to maneuver politically than regular city departments, have attempted to resist budget cuts by getting various elected officials to support their cause. In this way, they hope to isolate and pressure the mayor and governor.

The electoral threat

The final difference between the regime governing New York today and the regime Kelly and his successors constructed involves perhaps the most serious threat to the retrenchment program. The Tammany machine in the days of Kelly, Croker, and Murphy rested on a very broad and tightly controlled electoral base. The structure of electoral politics in New York today is quite different. A substantial proportion of the city's electorate—particularly its potential black and Puerto Rican electorate—does not vote. And many of the groups that do vote, but have acquiesced in the retrench-

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ment process so far, are capable of acting independently in the electoral arena to protect themselves from the full rigors of retrenchment. The potential thus exists for elections to disrupt the retrenchment process. If black leaders were to mobilize a broader electoral base now than in the past—and they now have a stronger incentive to do so—public officials would not find it so easy to slash expenditures on programs with a black clientele. And if various groups that have acquiesced thus far to retrenchment were to adopt a new stance and enter into a new set of electoral alliances, public officials might find it politically impossible to heed the imperatives imposed upon the city by the capital market.

In short, the structure of electoral politics in New York today is such that political campaigns can generate serious strains within the retrenchment coalition, and can result in the election of public officials committed to opposing aspects of the retrenchment program. Just how real this possibility is can be seen by examining the potential electoral resources commanded by blacks, homeowners, liberals, and city employees, and by considering the various ways candidates might construct coalitions among these groups in their efforts to win municipal elections.

Blacks and Puerto Ricans participate in elections in far smaller proportions than other major groups in the city. (During the first round of the 1973 Democratic mayoral primary election, for example, a total of 3,828 votes was cast in the predominantly black 54th Assembly District in Brooklyn, while 23,080 votes were cast in the predominantly Jewish 45th Assembly District a few miles to the south.) This is a consequence, at least in part, of the peculiar role blacks and Puerto Ricans played in the city's politics in the 1960's—one that contrasts sharply with the role the Irish played in New York politics a century before. While the political leaders of the Irish were rewarded in direct proportion to the number of votes they commanded, for the most part black leaders in the 1960's were not rewarded on this basis, because their support was valued less for the number of votes they could swing in municipal elections, than for the legitimacy they were able to confer upon public officials or public programs in the eyes of federal grant-givers, national opinion leaders, and the most ardent supporters of these officials and programs. To the extent that black leaders were able to obtain administrative appointments, influence over policy-making, access to the mass media, federal or foundation grants for their organizations, or election to public office in predominantly black constituencies, all without a large mass following, they had no compelling

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incentive to undertake the effort involved in mobilizing such a following.

The legitimacy that black leaders can confer on the officials or programs they support has been a far less valuable political commodity in the mid-1970's than it was in the late 1960's, and blacks have consequently suffered heavily from retrenchment. The immediate reason why blacks have borne the brunt of the recent wave of firings, of course, is that the city removes workers from the municipal payroll in reverse order of seniority. Black leaders have predictably denounced this practice as "racist" and "anti-black." The city has adhered to it nonetheless, because any alternative would be denounced with equal vehemence by the civil-service unions, and the mayor is less willing to arouse their ire than that of the black leadership. If it were the case, however, that blacks and Puerto Ricans cast as large a proportion of the vote in the Democratic primary as their proportion of the city's population (roughly one third), rather than voting at less than half that rate, it is likely that the mayor would have taken greater pains to protect blacks from the full force of the "last-hired, first-fired" rule. He might, for example, have cut more deeply into job categories occupied predominantly by whites, rather than by blacks.

Such political lessons are not likely to be lost on black politicians. To the extent that black leaders in the future will only be rewarded in proportion to the help they are able to give their friends at the polls, or the harm they are able to inflict on their enemies, they will have a stronger incentive than they had in the 1960's to mobilize the enormous pool of black non-voters. At the same time, retrenchment will provide black politicians with the inducement to adopt a new leadership style, and it may well spark leadership struggles within the black community. The skills involved in organizing large blocs of voters and forging coalitions in the electoral arena are not the same as the ones rewarded and hence encouraged by the city's political system in the 1960's. In this way, the current fiscal crisis may well foster leadership changes within the black community akin to those among the Irish a century ago, which favored the respectable and taciturn John Kelly over both the fiery Irish nationalist O'Donovan Roosa and the disreputable gambler John Morrissey. Such leadership is by no means alien to blacks: It is the style of the black labor leader (e.g., Bayard Rustin or Lillian Roberts) rather than the black preacher. There are some indications that such a transformation may in fact be taking place today. In announcing his candidacy for the 1977 Democratic mayoral

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nomination, for example, Percy Sutton ignored racial issues and focused his remarks solely on the problem of crime, an issue around which he clearly hopes to mobilize a biracial electoral majority. Over the long run, then, the fiscal crisis may do for blacks what the overthrow of Tweed did for the Irish: It may facilitate their incorporation into the political system under a chastened and more sober political leadership.

Whatever its long-run consequences, however, in the short run the incorporation of the enormous reserve of black non-voters into the electoral arena can only upset the current retrenchment program. The success of this program is contingent upon the political feasibility of firing a large fraction of the city's minority-group employees, and cutting heavily into the budgets of municipal agencies providing services to blacks and Puerto Ricans. No black leader could hold onto his following while tolerating a retrenchment program whose burdens fall so disproportionately on his constituency. (Although his general strategy entails avoiding racially divisive issues as much as possible, even Percy Sutton rose to the defense of John L. S. Holloman, the black director of the New York City Health and Hospitals Corporation, whose removal from office was engineered by the EFCB and Mayor Beame because he resisted cutting the budget of the public hospital system, most of whose patients and a majority of whose nonprofessional personnel are black and Puerto Rican.) The entry of thousands of blacks into the electorate would give black politicians the bargaining power to back up their demand that the burdens of retrenchment be redistributed. Any such changes would of course be resisted by the groups that would be disadvantaged, and elected officials might well find it impossible, within the constraints imposed upon the city by the municipal-bond market, to arrange a new set of fiscal and political accommodations acceptable to the city's unions, taxpayers, business interests, liberals, and blacks.

Who should bear the burden?

The civil-service unions are also in a position to use their electoral influence to improve their bargaining power in the retrenchment process. The unions can deploy manpower and money in political campaigns, and public employees and their spouses constitute a substantial voting bloc, especially influential in primary elections. A natural strategy for a candidate would be to court the support of the unions and middle-class Jews (the group whose turnout rate

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is the highest in the city's electorate) by casting himself as the defender of the city's traditional public programs, especially its public schools and colleges, and its subsidized middle-income housing program and rent-control program. The two chief sponsors of the Stavisky-Goodman bill, one of whom had his eye on the presidency of the city council and the other on the mayoralty, were clearly laying the groundwork for such a campaign appeal when they introduced their bill in the state legislature.

Elections and political campaigns can also lead to changes in the relative influence of the two groups most strongly committed to budgetary cutbacks—the city's downtown business elite and its homeowning population—and might thereby disrupt the retrenchment coalition. Since the eruption of the fiscal crisis, bankers and corporate executives have wielded enormous power in their role as mediators between the city and the capital market. They are able to exercise far less leverage in electoral politics, however, because apart from the Republican organization in Manhattan, they have no organizational presence. On the other hand, representatives of the city's homeowners have played little direct role in governing the city since the onset of the fiscal crisis (no spokesman for this group sits on the EFCB or MAC), but they are an important force in the city's electoral politics. Tax-conscious homeowners are a major bloc in the city's electorate, and their representatives play a considerable role in municipal elections through the regular Democratic and Republican organizations in Brooklyn, Queens, and the Bronx, and through the Conservative Party.

The question of who speaks for retrenchment in the governmental and electoral arenas is quite significant because the politicians who represent the city's homeowners are likely to cultivate alliances that differ considerably from the ones the bankers have struck. It would be natural for a candidate seeking the votes of the homeowners (who are chiefly lower-middle-class Catholics) to advocate that the municipal bureaucracies that employ and serve them (the Police and Fire Departments) be spared drastic budget cuts, and that reductions be made instead in programs (especially welfare) that have a black clientele and employ middle- or upper-middle-class personnel. Nothing could be more calculated to alienate the reformers and liberals, who have been happy to join a retrenchment coalition led by men of their own class or a higher social class (like Felix Rohatyn), and would find it hard enough anyway to overcome cultural and ethnic antipathies sufficiently to collaborate with politicians speaking for lower-middle-class Irish and Italians.

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Finally, reformers and liberals may come to play a different role in the city's politics during and after an election campaign than they have since the eruption of the fiscal crisis. Since 1975, reformers and liberals have followed the political leadership of the banks. In electoral politics, however, they have the ability to act independently, and they command a number of important resources—organizational skills, money, talent, energy, and a committed mass following. During an election campaign, these resources could be deployed in one (or both) of two ways. One alternative, which might be called the West Side option, would be for liberals to recultivate an alliance with blacks, oppose budgetary cutbacks, attack the banks, and—apart from calling for increased federal aid—ignore the issue of how the city is to pay its bills. The second, the East Side option, would be for liberals to maintain their current alliance with the banks, insist that the city has no choice but to cut its budget, attack the politicians and union leaders (the power brokers?) responsible for getting the city into its present mess, and—apart from opposing appeals to racism—ignore the blacks.

Campaigns can thus open the question of who should bear the burden of retrenchment, and elections can compel public officials to commit themselves to protect various municipal programs from budgetary cutbacks. When this source of strain is considered along with the other tensions besetting the retrenchment coalition, it is little wonder that New York City's creditors and potential creditors are reluctant to trust their fate to democratic politics.

The logic of political contraction

There are, as I noted above, two fundamental routes to retrenchment. One, the path of political organization and internally imposed discipline, preserves at least the forms of democracy. The other, the path of political contraction and externally imposed discipline, does not. Any particular retrenchment program may of course involve elements of both self-discipline and political contraction. Although New York City recovered from the fiscal crisis of 1871 by pursuing for the most part the path of self-discipline, there were aspects of the post-Tweed regime that could scarcely be considered democratic. For example, the reform charter under which the city operated from 1873 through 1897 included provisions for "minority representation" guaranteeing the anti-Tammany forces at least one third of the seats on the Board of Alderman. And Tammany relied, at least in part, upon its control of the police to deal with opponents who

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challenged its hegemony over the working classes: The police commonly intervened against unions in labor disputes, and dealt rather harshly with anarchists, socialists, and communists.

These qualifications aside, New York City recovered from its 1871 fiscal crisis without abandoning the forms of democracy, because John Kelly and his successors discovered a way, in a city where the ownership of property was not widespread, to reconcile mass political participation with the security of private property. They accomplished this by constructing a political machine that exchanged patronage for votes, and had both a broad base and a centralized structure and was therefore able to subject voters, public officials, and public employees to its discipline.

No such political organization exists in New York today. This is why the process of retrenchment in New York is currently beset by so many tensions, and why political campaigns and elections could so easily upset the retrenchment program. And it is for this reason that legal and institutional reforms that would sharply limit the scope of local democracy are being seriously considered in New York today.

New York City's creditors are well aware of the dangers threatening the retrenchment process. This explains the character of the proposals that the banks have advanced, and that public officials themselves have supported, in an effort to make the city's bonds marketable. For example, at the insistence of the banks, the statute creating the Municipal Assistance Corporation diverted the revenues of the stock-transfer tax and sales tax from the city's general fund, and earmarked them for debt-service payments on MAC bonds. And in February 1977, Mayor Beame proposed that revenues from the city's property tax be set aside in a fund under the State Comptroller for the purpose of meeting debt-service payments on New York City bonds and notes. Together, these reforms would deprive locally elected officials in New York City of the authority to determine how the monies raised by the city's most productive taxes are to be spent. (An analogous reform on the federal level would be a constitutional amendment depriving Congress of its authority over the $150 billion raised by the federal income tax, declaring that this money must be spent for national defense, and placing it in a fund controlled by the Joint Chiefs of Staff.)

In a similar vein, Governor Carey proposed that a "health czar" be jointly appointed by the mayor and governor to exercise all the authority of the city and state governments over hospitals and health care in New York City. This would permit both the mayor and gov-

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ernor to disclaim responsibility for the health czar's actions, and would thus give him enough freedom from popular pressures to accomplish what officials subject to such pressures find impossible to do—order the closing of hospitals.

Finally, in March 1977, the banks proposed that a state-appointed Budget Review Board be established as a long-term successor to the EFCB. The Review Board would have the power to review the city's budget before it was adopted, to reject it if—in the Board's judgment—it was not legitimately balanced, and to approve or disapprove all subsequent budgetary changes and all city borrowing. If city officials refused to obey the orders of the Review Board, it would have the authority to assume total control over the city's finances, and even to prefer criminal changes against municipal officials. The banks also proposed that restrictions be placed upon the city's ability to issue short-term debt, that a fund be created to cover revenue shortfalls and expenditure overruns, and that city officials be required to observe various reporting requirements and internal budgetary controls.

As these proposals indicate, a process of political contraction is well under way in New York. And the logic behind that process seems to be inexorable. If New York City is to manage its cash flow, finance capital projects, and pay off its accumulated deficit, it must enjoy access to credit. It will obtain such access only if its creditors are convinced that the city is able to repay the money it borrows. The city can only pay its debts if its current expenditures do not (as they presently do) exceed its revenues. Since the city's ability to increase its revenues through additional taxation is reaching the point of diminishing returns, it has no alternative but to reduce its expenditures. If elected officials find it politically impossible to reduce municipal expenditures, then the city can obtain the loans it requires only if outsiders are empowered to do the job for them, or if their authority to do otherwise is restricted by law.

In the absence of a political leadership with the power that John Kelly had to impose restraints upon public officials, New York City's creditors have searched for other means to insure that their loans will be repaid. And in an effort to provide such guarantees, the city has been driven down the second route to retrenchment—that of political contraction. To be sure, New York City is not the Weimar Republic or Argentina. David Rockefeller is not in a position to organize bands of black-shirted thugs to beat up municipal union leaders and break up meetings of West Side reformers, nor is Felix Rohatyn likely to propose that welfare recipients be disqualified

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from voting in municipal elections. The process of political contraction, however, can proceed not only by direct assaults upon the rights of newly powerful groups, but also by removing authority from the hands of elected officials amenable to the influence of these groups and transferring it to officials insulated from popular pressures. Moreover, statutes can be enacted and standards placed in the covenants of 20-year municipal bonds that limit the freedom of elected officials within the domain where they do retain some authority. And, as Boss Tweed learned, the criminal law can be used to keep profligate politicians in line. Just such reforms have been enacted or are being proposed in New York in an effort to make the city's bonds marketable. Whatever may be the long-run consequences of the city's fiscal crisis, as a result of these reforms, the citizens of New York may be left over the next decade with very little control over how they are governed.

TO OUR READERS

For three years now, *The Public Interest* has maintained its current price. This is simply no longer feasible, for reasons we assume to be obvious to our readers. We regretfully announce, therefore, that the following new prices will take effect with our Fall 1977 issue:

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American housing policy: perverse programs by prudent people

IRVING WELFELD

IN 1974, for the fourth time in a quarter-century, the executive and legislative branches squared off over a major piece of housing legislation. For the fourth time, their efforts went askew; by all accounts the latest results were the most screwed up of all.

The Housing and Community Development Act of 1974 is especially interesting because it came on the heels of a pause for reflection by the executive branch. In January 1973 the issuance of new commitments for the production of housing ceased, and for nine months the Nixon Administration studied the older programs (public housing, rent supplements, and the interest-subsidy sections 235 and 236). Its criticism and condemnation of these amounted to a list of criteria for a new program.

According to the testimony of James Lynn, former Secretary of Housing and Urban Development (HUD), when he offered the Administration's new housing proposal in October 1973, the older programs were primarily rejected for two reasons. First, not enough help was directed to those who were most in need, since sections 235 and 236 primarily served families with incomes above the poverty level. (In 1972 the median income of those assisted was $6,750 in the

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case of section 235, and $5,450 in the case of section 236.) Second, the programs were neither efficient nor fair. To the extent that a program involved high costs per unit, it was difficult to extend to the whole universe of eligible households. And the rejected programs were indeed "inordinately costly," to use former Secretary Lynn's words—and, as a result, also unfair, since only one of every 15 eligible households benefited.

HUD proposed that there be "a new approach to construction that would offer developers the opportunity to make newly constructed units available at special rents for low-income families," and that "the government in turn would pay the developer the difference between such rents and fair market rents." This proposal was massaged (or mangled) by Congress for a few months, and in due course a program emerged—the section-8 leasing program. The Housing and Community Development Act of 1974, of which it formed a part, was signed by President Gerald Ford on August 22, 1974. The section-8 program was not limited to new construction; it was also available for existing rental apartments. However, the segment relating to new housing production was the center of everyone's attention.

The numbers game

Unfortunately, when the segment of section 8 devoted to new construction (approximately 250,000 units were projected in the 1977 budget for fiscal years 1976 and 1977) is measured against the same criteria as the old programs were, it scores rather poorly.

Sections 235 and 236 were laid to rest primarily because they failed to serve families with incomes below the poverty threshold. Nevertheless, the new leasing program came back with the same "lower income" terminology as the interest-subsidy programs—i.e., a "lower income" that is higher than low income.[1] In fact, defined as it is in the new program as being 80 per cent of the median income in a locality, it is higher than a definition of "lower" that was denounced by Republican Senators in 1968. At that time, Senators John Tower, Wallace Bennett, and Bourke Hickenlooper could not swallow a limit of 70 per cent of median income:

> [W]e have urged that the benefits of the . . . programs created by the bill be restricted to families at the true lower incomes, or under $5,000,

[1] At least in most urban areas. In some poor rural counties, the keying of eligibility to local medians results in the exclusion of families with incomes below the national poverty definition.

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when the programs are implemented. To not do so would certainly circumvent the need that has been made abundantly apparent. . . .

House Republicans in 1968 also struck the theme of the need to help *low*-income families. The income limit for sections 235 and 236 was ultimately tied to public-housing limits because of a Republican-sponsored amendment. Representative John Anderson, the sponsor, was quite explicit in indicating that his purpose was to forestall a moderate-income program:

> I do not think it is unreasonable, therefore, to suggest that the administrators of this program might be tempted just a little bit to play the numbers game again with this Congress to make it look good, to make it sound as if they were fulfilling goals under this program, to go into the business of providing . . . housing . . . for those of moderate income.

The 1974 legislation does provide that 30 per cent of the units be "set aside" for very-low-income families. However, as Representatives Parren Mitchell and Walter Fauntroy noted, there is more (income) there than meets the eye:

> One would think that "very-low-income families" would be defined as those with incomes even lower than the poverty definition—say 50 per cent of the poverty guideline, or $2,275 for a family of four.
>
> Perversely, according to the definition in the bill, very-low-income families can have incomes above the poverty level, because very low income is defined as "below 50 per centum of the median income for the area." In 1972, median family income for the United States as a whole was $11,116. Half the national median would therefore be $5,558, or $1,008 higher than the poverty level. . . .

Congress, in short, persisted in writing into law a "generous" definition of "low income"—without, however, appropriating the huge amounts necessary to house the large population covered by such a definition. The aversion of Congress to exclusively low-income housing was based on its discovery, made during the 1950's and 1960's, that public housing for only the lowest-income families soon became public slums.

If one is including higher-income families, one should at least achieve lower costs. Nevertheless, the section-8 program devoted to new construction may very well set a new record for high subsidies. In a high-cost area, such as New York City, the maximum subsidy for a three-bedroom apartment is $9,312 per year! The program will definitely be "inordinately costly." Former Secretary Lynn's remark referred to a cost of $65-85 billion over a 40-year period, for 2.7 million units. The average annual subsidy for a new

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section-8 unit is projected to be $4,000 in the 1977 budget. So the cost of 2.7 million units, over a comparable period, would be $432 billion.

In sum, after much toil and trouble, the program pulled out of the federal legislative cauldron retained the faulty features of the previous programs. In fact, the criticisms made of the old programs in 1973 by the Nixon Administration apply with full force to the new:

> Our present approach is highly inequitable. Rather than treating those in equal circumstances equally, it arbitrarily selects only a few low-income families to live in federally supported housing, while ignoring others. Moreover, the few often get a new home, while many other families—including those who pay the taxes to support these programs—must make do with inferior older housing. . . .
>
> The present approach is also very wasteful, for it concentrates on the most expensive means of housing for the poor, new buildings.

A "minds-off" policy

W. C. Fields once quipped: "If at first you don't succeed, don't be a damned fool about it." Given the many efforts and the inept results, there is a growing feeling that the government should wise up. A commentator in this journal just about "threw in the towel" with respect to the possibility of anything good coming out of the deliberations of federal policymakers and Capitol Hill lawmakers in the field of housing subsidies. What he suggested was a "minds-off" policy.

In "On the Making of Perfect and Beautiful Social Programs" (*The Public Interest,* No. 39, Spring 1975), William Baer suggested that based on past performance, Absolute Ignorance and Lady Luck would be the logical choices for the role of Master Artificers of housing policy:

> [M]indless mutation and cumulative chance when coupled with the operation of natural selection may work together to produce a wonderfully complex system. . . . [The] almost perfect and beautiful social program . . . was deliberately designed by no one: It was an accident. I am speaking of the homeowner deduction provisions in the federal income tax. These provisions comprise a housing-subsidy program which makes the deliberately created direct housing programs look feeble in impact, and inept in program effectiveness.

The choice may be correct, but the reason is wrong. The home-ownership deduction provisions have produced deductions, but not homeowners. The provisions that permit homeowners to deduct interest and real-estate taxes in calculating taxable income have *not*

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been responsible for the high rate of homeownership in the United States. The percentage of units that are owner-occupied in the United States and Canada is approximately the same (63 per cent). Yet Canada does not have the homeownership deduction provisions. On the other side of the ocean, many Western European countries have comparable homeownership deduction provisions and more progressive tax rates. West Germany permits the deduction of part of the principal as well as the interest. Nevertheless, the ownership rate there is only 35 per cent. What seems to explain the high ownership rate in the United States and Canada is the relatively low cost of the single-family home, which has been within the means of a far greater percentage of households—not the subtlety and robustness of a "mindless" program.

There is another defect in the "Absolute Ignorance" thesis, and this is far more important. It fails to explain the very sorry state of the legislative process in the field of direct housing subsidies. In other social areas solutions are fashioned which, although far from perfect, are often improvements over the past. The food-stamp program, for all its defects, does deliver a lot of food to a lot of people (too many, some would say). Medicare is certainly better than no care. But in the housing field, no progress in the quality of government programs is visible.

There is something unique about housing: The most reasonable solution from a legislative point of view has also been the most radical one from the political point of view. Men of good will, liberal and conservative, agree that something should be done when the poor are living in slum conditions during a housing shortage. As Senator Robert Taft stated in 1949:

> Roughly speaking, the . . . lowest-income families have gradually gravitated to the . . . least desirable, sub-standard dwellings. It has been suggested that all we have to do is to tell the cities to tear down those buildings. But then we would be faced with the problem of finding houses in which those people would be able to live. In the first place, as of today, there are no houses for them to move into, and no private person can afford to build for them. In the second place, if there were . . . houses waiting for them, after they continued to pay [low] rent for any considerable period of time, those houses also would deteriorate into slums. . . . I know of no other method of meeting the problem of low-income families, except by starting at the bottom and replacing existing slums with permanent buildings, and subsidizing the rentals sufficiently so that those buildings will not deteriorate, but will be kept up, and will not themselves become slums.
>
> The general theory of subsidizing low-income groups is not a new theory in Anglo-Saxon political life or Anglo-Saxon economic life. . . .

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> Every city in the country provides free hospitals and free medical care. Every city and every township recognizes the obligation to provide food relief and to provide clothing relief for those who have no other means of obtaining the absolute necessities of life. I think all of us acknowledge the duty of the community to take care of those who are unable to take care of themselves. The American people are charitable and humane people, and they do not want to see hardship and poverty in the midst of plenty.

In the case of good clothing or health care, however, the poor can be provided for in a way that leaves the donor in better shape (in material as well as spiritual terms) after the deed than the receiver. Even in the case of welfare, the givers are in the main better off than the recipients. *In the case of housing, however, the results run far beyond egalitarianism. The programs involve a redistribution that leaves recipients better off than donors.*

A housing unit is built to provide decades of service. If it is to be functional as long as it is physically usable, when built it must be provided with facilities that were once (and may still be) considered luxuries. *As a result, the unit is superior to the housing occupied by a large portion of the non-poor.* The result is analogous to that of a program providing new Buicks to families who are inadequately served by public transportation.

The redistributive aspects of a new housing program are so great because of the cost of a newly constructed housing unit. Although housing is a consumer good, its durability makes it so expensive as to render it unique. One could, of course, achieve lower costs by lowering standards—for example, by providing the poor with mobile homes. Unfortunately, a lower initial cost is not the same as long-term savings. In 1968, the President's Committee on Urban Housing commissioned the McGraw-Hill Information Systems Division to study the comparative production and occupancy costs of different types of housing units. Among the types were a conventionally built single-family home and a mobile home. It was assumed that the mobile home was to be located in a mobile-home park and used as a permanent living unit. The total development cost, namely the cost of construction plus the cost of land and site preparations, was twice as high for the conventional unit as for the mobile home. Nevertheless, the monthly occupancy cost of the mobile home was 90 per cent of the more expensive house. The reason is directly related to durability.

Debt retirement represented the most significant cost of the housing unit (55 per cent of the total), and the size of debt retirement depends on the terms of financing, interest rates, length of term

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for the loan, and the fraction of the purchase price that is financed. The fact that mobile homes are more like cars than homes in terms of durability means that they are financed more like the former than the latter. The mobile-home owner receives short-term loans at high interest rates. Figuring the monthly occupancy costs also overlooks a significant savings in favor of the conventionally built home. The latter tends to appreciate in value as it ages. The mobile home, again like the car, depreciates in value, and will surely also depreciate in fact—i.e., become a slum dwelling.

A paradoxical pattern

In a world in which a radical is one who proposes free public transportation, a supporter of *new* housing for the poor should be deemed a madman. Nevertheless, this has been the mainstream of housing policy for 40 years! The Housing Act of 1937 is, on paper, probably the most radical piece of legislation ever passed. As a representative noted in 1937, "this bill has no parallel in any civilized country in the world. Neither in England, Holland, Sweden or any other country has the Government gone so far. . . ."

But the radical nature of the solution runs against the grain of common sense. Ordinary working people cannot be expected to sit by calmly while the poor are placed in superior housing. The more the program is understood, the less it is admired. Political disapproval increases in direct proportion to the nearness of program impact. When the basic format for public-housing policy was created in the 1930's, there was only a hazy understanding of this fundamental problem. Since then, it has haunted every meeting of legislators, White House planners, and scholars.

The pattern of trying to provide the poor with new (and expensive) housing, and therefore, owing to political realities, not providing them with much housing at all, was set as early as the first public-housing act, in 1937. In a sense, the law was a brilliant technical feat. Public housing was blessed with an ingenious formula that permitted the almost painless birth (at least financially) of new housing. Amortization of the total capital cost, including land, was covered by federal subsidies in the form of annual contributions. The maximum contribution was sufficient to pay the total amount of principal and interest on the local bonds issued to finance the development. Since the federal payment was on the installment plan—initially for 60 years—the resulting impact on the federal budget was very small. The subsidy was also carefully cal-

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ibrated. If revenue from the project exceeded operating expenses and reserves, an equivalent reduction in the federal subsidy was required. There was another federal subsidy involved—the loss to the Treasury of income-tax revenue—since part of the financing was done by tax-exempt bonds. But this subsidy was so well hidden it took decades for anyone to notice it.

On the local side, the process was also painless. The United States Housing Authority stood ready to lend 90 per cent of the total development cost (the balance to be obtained by issuing tax-exempt bonds to private investors). The borrowing was done by an independent local authority that was not subject to municipal debt limitations. A local contribution of 20 per cent of the federal contribution was required, but it usually took the form of a partial forgiveness of local property taxes. Localities could thus participate with no material cash requirements.

The issues of cost and coverage were considered but not resolved in 1937. A specific cost limitation of $4,000 per apartment and $1,000 per room ($5,000 and $1,250 respectively in cities with populations in excess of 500,000) was imposed. Two further limitations were set: 1) that the projects feature neither elaborate design nor expensive materials, and 2) that construction costs be below private costs. However, given the regional variations in costs and the fact that the structures had to be far more substantially constructed than ordinary homes (since provision was made for 60-year loans), there was still a wide area for disagreement.

Using a formula based on a multiple of rent, Congress wrestled with the issue of whom the program was to serve. The formula itself posed a dilemma. If eligibility were limited to families with incomes equal to three or four times their rent, only very-low-income families would be eligible. But then these families would have to sacrifice other necessities in order to afford the rent. Choosing a larger multiple made many higher-income families eligible. Ultimately, a multiple of five (six for large families) was agreed upon. Even so, the measure only set a ceiling. The actual population the program was to serve was undetermined. It was one of the areas in which the success of the bill would depend "upon the common sense and good faith with which it is administered by those who have charge of it."

The initial (as well as subsequent) administrators were not wild-eyed radicals. The "Housing Authority Management Manual" informed local managers that the "first principle of . . . operations is to safeguard the public interest through business-like procedures."

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This meant realistic rent levels, substantial reserves for repairs, maintenance, and replacements, and a limit to the number of very-low-income and relief families served. The families selected and served were to be reasonable rent risks. One of the measures for judging the risk was that the family income should not be so low that it would have to sacrifice budgetary essentials in order to afford the rent.

Given the large numbers of Depression-created candidates for low-rent housing and of poorly housed defense workers after 1940, local authorities could afford to be choosy. By 1949 the program was a fiscal success. The actual annual federal contribution was only 16 per cent of the maximum. The main financial problem was that the reserves that were maintained by the authorities were excessive.

The Housing Act of 1949

World War II gave legislators a time to think (rather than act) on public housing. However, the more they thought the more difficult the issue became. In 1949, the Administration and the Congress addressed the problem armed with three maxims. First, the general welfare of the nation required housing production in order to remedy a serious housing shortage. Second, the nation had a duty to see to it (as soon as feasible) that every American family was provided with a decent home in a suitable environment. Third, private enterprise was to be encouraged to serve as large a part of the total need as possible.

The success of public housing on the financial front was only part of the picture. Public housing was serving many who, in an era of postwar prosperity, could afford homes built by private enterprise. The impact of this occupancy pattern was felt by private industry as well as by the most needy.

A solution that would have offered the poor rent certificates (housing allowances) had been examined and rejected by those on the right (Senator Taft) as well as those on the left (Charles Abrams). The grounds for rejection were stated very clearly by a commission created by President Dwight D. Eisenhower in December 1953:

> One of our principal objections to the "rent certificate" plan is that it would create a "dole" for housing. Every responsible social-service agency has opposed it on this and other grounds. We have always, to the greatest extent possible, avoided a "dole" in this country as being

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> degrading to the individual. . . . Money invested in public housing on the other hand, adds permanent wealth to the community and to the nation which can be liquidated and the investment recaptured when the need disappears.
>
> Another objection is that "rent certificates" will not add to the housing supply. Even if they could be used only for standard housing, as some of its advocates now urge, we cannot see any expansion of the supply of decent housing on a tenuous expectation that a rent subsidy will be forthcoming and continued from year to year until the investment is amortized.

The solution of sensible men was to alter public housing by directing it to the lowest-income group. By aiming at families without stable wage earners, the draftsmen were doing not just the right thing, but also the smart thing—the threat of public competition to private enterprise would thereby be avoided. Public housing would cut the price, without cutting into the market of private enterprise.

There were several changes to assure that occupancy would be limited to low-income families: 1) First preference was given to families displaced by public slum clearance, redevelopment, or low-rent housing. 2) A 20-per-cent rent gap was established between the top rent of public housing in the locality and the bottom rent at which unaided private enterprise could provide a supply of decent housing. Since public-housing tenants were required to pay a minimum of 20 per cent of their income for rent, the new rent limit produced lower local income limits. 3) Maximum income limits were established for admission and continued occupancy, and mandatory removal of households exceeding the limits was required. 4) Discrimination against welfare families was prohibited.

But the Pandora's box of public housing was not to be tampered with casually. Senator Allen Ellender had predicted in 1948 that if greatest need were to become the criterion of tenant selection, public housing would be transformed into a poorhouse. Other issues soon started popping up. The program would require a federal commitment of $15-20 billion. Nevertheless, the 800,000 units to be authorized would serve only a small fraction of the six million in need of housing. It was then pointed out, by no less a humanitarian than Senator Joseph McCarthy, that the subsidy was insufficient to cover the needs of very-low-income households. He even offered an amendment that would have increased the subsidy to cover operating as well as debt-service expenses.

Supporters of the bill were in an impossible intellectual position. If they were to favor the extra subsidy they would have to ask

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for more money to serve the same number of families. This would intensify the opposition based on cost and the opposition from the representatives of the 12 million owners of older homes. As Representative Leo Allen noted:

> Many . . . went into cheap homes worth probably three or four thousand dollars. Many of these homes did not have modern conveniences: yet that individual in the good old American way works nights and Sundays to improve his bathroom and other parts of his home. If, however, this bill is enacted into law his neighbor will march in and take over a home with all modern conveniences, while the first man who has been paying monthly installments on his home and has been trying to improve it in the good old American way by working with his hands will have to help pay for the new home for the neighbor. To illustrate . . . we could take two individuals working side by side, making the same wages. One through frugality saved the down payment, we will say, of a thousand or fifteen hundred on his home and pays monthly installments of $65 while the other man right beside him for a home with all modern conveniences will be paying but a fraction of that.

The supporters of the bill in the House could not risk antagonizing any more of their Congressional colleagues, and rejected Senator McCarthy's amendment. The Senators, standing at a much larger distance from their constituents, approved the bill by a wide margin. In the House, the bill was initially rejected and then passed by a razor-thin margin, 209 to 204 (with Representatives Nixon and Ford in opposition).

As time passed, the defects in the bill became evident. The Housing Act of 1949 did indeed transform America's public housing into a modern version of the poorhouse and undermined its fiscal foundation. Although the name of the program had stayed the same, the legislative draftsmen had substantially changed the game. The decision to limit public housing to the poor and to insulate private enterprise from competition produced profound, predictable, but nonetheless unexpected economic and social consequences.

New directions for housing policy

By the end of the 1950's, everybody was unhappy with public housing. The program had gradually been turned over to the very poor, and the result was many publicly owned slums. The performance of public housing was so poor that it was dethroned as the sole ruler of the subsidized kingdom. During most of the 1960's a suitable private replacement was sought. In 1965, with the most

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liberal Congress since the New Deal, President Lyndon Johnson introduced "rent supplement" legislation in the hope that the combination of private enterprise and the inclusion of a higher-income group would solve the problem. Eligibility would be limited to households with incomes below the amount necessary to obtain standard housing *but above* the amount necessary to obtain admission to public housing. Congress bought the first part of the package. As in 1949, however, eligibility was again limited to the very poor. In an attempt to make sure that this new housing was no better than that of the average taxpayer, Congress placed so many restrictions on the program, with respect to cost and location, that it could not and did not work.

After the failure of the rent-supplement program, the Johnson Administration was ready to give up. Senator Charles Percy made a new and surprisingly popular proposal: The housing problem of the poor could be solved through a homeownership program.

The Administration at first scoffed, but the sneer was wiped off its face by the glowing media reception. What was being promised was the replacement of high-rise ghettoes, housing sullen and morose generations of welfare recipients, by pleasant and stable communities of tax-paying freeholders who, at the very least, would not burn what they owned!

The executive branch was willing to try homeownership, but not for the very poor. When the Housing and Urban Development Act of 1968 was introduced, it contained a homeownership program (and as a matter of symmetry a rental program). The eligibility limits in the enacted legislation were far above those of public housing. The limits were set at close to the median income in the locality despite Congressional intent and effort to mandate lower limits.[2] Not surprisingly, the most productive program in housing-subsidy history resulted. There were faults in the program, but the great majority of these emerged when it was directed to the very poor. The subsidy was just not great enough to serve these families. The main fault of the program, however, was diagnosed in President Nixon's "Third Annual Report on National Housing Goals" in June 1971:

> By the end of fiscal year 1972, two million or more families will be receiving housing subsidy under one or another of the many federal pro-

[2] The miscalculations that produced this accidental result are set forth in my article, "That 'Housing Problem,'" *The Public Interest*, No. 27 (Spring 1972), pp. 78-95.

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grams. The amount of such subsidies ranges as high as $2,400 per family per year.

In spite of rapidly increasing production, the families receiving subsidies are the fortunate few compared to the universe of families who are potentially eligible. Under present law . . . 40 per cent of the total population are eligible for the major subsidy programs. If all eligible families were subsidized the cost would be astronomical.

Two . . . elements itensify the social equity dilemma. . . . One is the linking of . . . subsidy almost exclusively to newly constructed housing. . . . [E]ligible families . . . are moving into brand new homes on which they make relatively modest payments while other families in similar—or maybe even slightly better—basic economic circumstances are left struggling to meet their monthly payments in older homes purchased without subsidy.

The other serious problem is that too often the present . . . programs simply cannot help the very poor. . . . Families with very low incomes are not and cannot be helped under most of the housing programs because of the limit on the maximum amount of subsidy per unit that can be paid.

The world turns

Despite a multi-million-dollar study in 1973 and major legislation in 1974, we have still not come close to the solution of the impossible problem of how to provide new and therefore expensive housing to the poor. But meanwhile the world has not stood still. The housing problem of the poor has changed significantly in the last 25 years. Although, as of 1974, 11 per cent of the tenants with annual incomes under $5,000 still lived in units lacking some or all plumbing facilities, and 16 per cent of those who occupied units with all plumbing facilities were overcrowded, most of the poor now live in what could be termed "standard" housing.[3] The main problem in urban America is not adequate housing but high cost—72 per cent of all tenants with annual incomes under $3,000, 65 per cent of all renters under $5,000, and 54 per cent of all renters under $7,000 (compared with two per cent of those with incomes between $10,000 and $14,999) were spending more than 35 per cent of their income for housing in 1974. This can be viewed simply as an income problem. The lack of income, however, leads inexorably to a housing problem. Standard housing may filter down, but if the poor can-

[3] This is especially true of the urban poor. Of renters with incomes under $3,000, 93.2 per cent live in apartments with all plumbing facilities, and 88.7 per cent in units with all facilities and containing less than one person per room. The comparable percentages for black households are 93.8 and 87.1. For rural poor, only 70 per cent live in uncrowded units with all facilities. For rural blacks, the comparable percentage is 47.

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not pay the amount necessary to cover the basic expenses of ownership and operation, the housing then "filters out" through disinvestment and abandonment. This is true whether the landlord is public or private, benevolent or despotic. The lack of repair makes the unit ultimately uninhabitable.

The high cost of maintenance is not really the villain. Maintenance and repair make up but a small portion of the cost of occupancy—approximately 15 per cent. Maintenance is, however, one of the few flexible items in the landlord's budget. With the rising cost of debt service, property taxes, fuels, and utilities, there is little left to take care of maintenance. During the inflation of the 1970's, rents have risen more slowly than any other major component of the consumer price index. But the standard housing for which these rents are paid is deteriorating.

Housing allowances seem to be the obvious answer. It is certainly a solution that does not require taxpayers and voters to adopt a saintly pose vis-à-vis the poor, for it promises to better the housing condition of the poor without providing them with better housing than that owned by those providing the subsidy. But as long as rents are rising rapidly (in an absolute sense), or there are some areas in which vacancy rates are very low, this is an approach fraught with political danger. Housing allowances are unacceptable as long as there is some semblance of a housing shortage. An upward shift in demand as a result of subsidizing rents may induce an increased supply in the long run, according to classical economic theory. But in the short run it will drive up housing costs, by increasing demand relative to supply. The middle-income voter will be taxed twice, paying for the allowance *and* for higher housing costs for himself.

Perceiving their choice as being between housing allowances and the traditional production-for-the-poor approach, the Administration chose the lesser political evil in 1973. Housing allowances were shunted off to an experimental track. And, once again, in section 8, the result was a housing program for the poor that called for new and therefore few units.

The impossible dream

The logical fruit of an ill-perceived problem is a misconceived solution. What the country needs is a production program *and* an assistance program. The nation has two distinct housing targets. One is producing housing so that there is a decent unit for every

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American. The other is helping every American pay for a decent unit. *The one sure way of missing both of these targets is by trying to hit both with one arrow.* This is beyond the ability of even the Zen master who can clap with one hand.

But what is needed is not the old kind of production program. The subsidy need not, and indeed should not, be so large as to bridge the gap between what the supplier of new housing must receive and what the poor can afford. Its main purpose should be to flush out or entice into the *new* housing market the consumer who is presently adequately housed—to produce a unit that would not otherwise adequately have been produced, thus inducing him to make his old housing available to others. The critique of section 235 made in 1973 was actually misguided. The fault was not that it failed to produce new housing for the poor, but rather that it was an inefficient mechanism for producing housing, period.

Where are we today? On the production side, a wondrous thing did occur in 1975. For the first time in four decades the bond was broken between housing production and assistance to low- and moderate-income households. Not surprisingly, it took a depression in the housing sector to bring this about. An unemployment rate of 40 per cent among home-building construction workers and the prospect that middle-income households were being priced out of the new housing market resulted in a flurry of measures directed at builders and middle-income buyers.

The first in the series was the Emergency Home Purchase Assistance Act of 1974, which allowed the Governmental National Mortgage Association (GNMA), through the tandem plan,[4] to purchase from private lenders mortgages on new homes that bore interest rates slightly below (by approximately one-half per cent) the prevailing market rate. The next measure, the Tax Reduction Act of 1975, permitted buyers of a new residence in 1975 to take a tax credit of

[4] The tandem plan gets its name from the close collaboration of the Federal National Mortgage Association (FNMA) and GNMA. Under this approach, GNMA enters into commitments to buy mortgages with less than market yields in the expectation that they may later be sold to FNMA or other investors at prices reflecting market yields, with GNMA absorbing any loss. GNMA's commitment with the original lender is made "in tandem" with a separate agreement between GNMA and FNMA, under which the commitment is assigned to FNMA. FNMA agrees to buy the mortgage if called upon.

The crucial feature of the tandem plan is that the purchase commitment issued by GNMA and the tandem obligation assumed by FNMA are at different price levels. GNMA is commited to buy mortgages at prices within the range of 95 to 100 per cent of the face amount of the mortgage. FNMA's obligation is to purchase at the market price. The GNMA commitment usually results in an eventual loss, which in effect constitutes a federal subsidy. GNMA enters into its purchase commitment in order to assure financing at reduced cost.

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$2,000. The third and most important measure was passed by Congress but vetoed by President Ford. It would have provided an interest subsidy to middle-income families who bought new, moderately priced homes. "Middle income" was defined as an income not in excess of 120 per cent of the local median income; "moderate price" was defined as an appraisal value of $38,000 ($42,000 in high cost areas). President Ford vetoed the bill in part because he had doubts about the cost-effectiveness of the Democratic proposals, in part because he thought the income limit of 120 per cent of the local median was unfair (in some areas it would have permitted families with incomes well over $25,000 to qualify, while in other areas families with incomes as low as $6,000 would have been ineligible), and perhaps most important because he had a "tried and tested mechanism for supplementing and reinforcing housing construction"—that is, the tandem plan.

The measures that passed were seriously flawed as production programs. A small subsidy is not the same as an efficient subsidy. If government money goes to a family who would have bought the unit without a subsidy, the public gains nothing. In the case of the housing legislation of 1974 and 1975, the preliminary indications are that the public gained next to nothing. A study by George Furstenburg of the Council of Economic Advisers concluded that only about one of every 12 new homes covered by the "tried and tested" method—the tandem program—would not otherwise have been built. Nevertheless, for all of their programmatic failings, the measures do represent a conceptual breakthrough. Although the arrows were misshapen, the archers were aiming at only a single target—that of production.

The same, however, cannot be said of measures directed towards assisting the poor. Although the vast majority of the subsidy recipients in the section-8 program are now in older units,[5] this does not represent a change in mind or heart. New construction was pushed from Washington but was impeded by unfavorable market conditions and flaws in the legislation. Section 8 imposed a greater risk on private lenders than they were willing to bear. HUD was barred from making subsidy payments on behalf of units that were vacant for more than 60 days. The maximum length of the housing-assistance contract was only 20 years—a period too short to provide adequate security to a private lender who is being asked for 40-year money.

[5] For some of the flaws of section 8 as an assistance program, see my article, "The Courts and Desegregated Housing: The Meaning (if any) of the *Gautreaux* Case," *The Public Interest*, No. 45 (Fall 1976), pp. 123-135.

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The skittishness of the private sector forced developers back to federally insured mortgage financing. However, to compound the difficulty, many local HUD offices were less than enthusiastic about the new business. Burnt by the scandals and costly defaults that accompanied their last multi-family subsidy program, HUD's own insurance offices have been slow in approving projects; when they have approved them, the mortgage amounts are often too low to permit construction.

HUD, however, prodded by Congress, presses on. The technical flaws are being patched over. In a burst of enthusiasm, the new Democratic Administration seems determined to make its predecessor's housing program work (in the same way the Republican Administration in 1969 embraced the interest-subsidy programs of its predecessor). Alas, for the institutional amnesia. The section-8 program will not produce much housing for the poor, for the same old reasons. As yet, no one wishes to admit that section 8 was merely the old error—one more time. The archers still dream of hitting both targets; no one wishes to give up the quest for the magical arrow.

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